**Susan Combs** Texas Comptroller of Public Accounts

**Comprehensive Annual Financial Report for the State of Texas for the Fiscal Year Ending August 31, 2007**

# Comprehensive Annual Financial Report

## For the State of Texas

## For the Fiscal Year Ending August 31, 2007

## Acknowledgments

The Comprehensive Annual Financial Report was prepared by the Financial Reporting Section of the Texas Comptroller of Public Accounts with assistance from other sections within the Fiscal Management and Public Outreach and Strategies Divisions.

Special appreciation to:

All accounting and budget personnel of state agencies and universities whose extra time and effort made this report possible.

The State Auditor, John Keel, CPA, and his auditing staff.

# State of Texas
# Comprehensive Annual Financial Report
**For the Year Ended August 31, 2007**

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# Introductory Section

February 29, 2008

To the Citizens of Texas, Governor Perry
and Members of the 80th Texas Legislature:

The Comprehensive Annual Financial Report (CAFR) of the state of Texas for the fiscal year ended Aug. 31, 2007, is submitted herewith. Responsibility for both the accuracy of the data presented, as well as the completeness and fairness of the presentation, rests with the office of the Texas Comptroller of Public Accounts. To the best of my knowledge, the information presented is accurate in all material respects and all disclosures necessary for a reasonable understanding of the state's financial activities have been included.

The reporting approach established by the *National Council on Governmental Accounting in Statement No. 1* and endorsed by the Governmental Accounting Standards Board (GASB) has been utilized. The state also voluntarily follows the recommendations of the Government Finance Officers Association (GFOA) of the United States and Canada for the contents of government financial reports and participates in the GFOA's review program for the Certificate of Achievement for Excellence in Financial Reporting. This report is divided into three sections. (1) The introductory section provides this transmittal letter, elected state officials, government structure of Texas and the GFOA Certificate of Achievement. (2) The financial section includes the auditor's opinion; management's discussion and analysis (MD&A), which provides an introductory overview and analysis of the financial statements; the financial statements, which present government-wide financial statements for the primary government along with the component units of the state of Texas and fund financial statements for governmental funds, proprietary funds and fiduciary funds, together with the notes to financial statements; required supplementary information other than MD&A, which presents budgetary comparison schedules and information about infrastructure assets; and other supplementary information, which includes the combining financial statements. (3) The statistical section provides various financial, economic and demographic data about the state.

The state auditor has performed an audit in accordance with generally accepted auditing standards of the state's general-purpose financial statements. His opinion is presented in this report preceding the financial statements.

The state auditor has contracted with KPMG to perform portions of the federal audit procedures necessary to meet the requirements of the federal Single Audit Act Amendments of 1996 and related Office of Management and Budget (OMB) Circular A-133. The federal portion of the Statewide Single Audit Report for the year ended Aug. 31, 2007, with the opinion expressed by the State Auditor's Office, will be issued separately.

## Profile of the Government

This report includes government-wide financial statements and fund financial statements of various departments, agencies and other organizational units, which are considered part of the state of Texas financial reporting entity. Criteria for determining the reporting entity and presentation of the related financial data are established by GASB. The criteria includes legal standing and financial accountability. Other organizations, which would cause the financial statements to be misleading or incomplete if they were excluded, are also included in the reporting entity. Note 1 of the notes to financial statements provides detail on the financial reporting entity. A brief summary of the nature of significant component units and their relationship to the state of Texas is discussed in Note 19.

All activities that would generally be considered part of the state of Texas are included in this report. These activities provide a range of services in the areas of education, health and human services, public safety and corrections, transportation, natural resources and recreation, regulation, general government, employee benefits and teacher retirement benefits.

### Accounting System and Budgetary Controls

The MD&A, in the financial section, provides an overview of the state's financial activities addressing both governmental and business-type activities reported in the government-wide financial statements. In addition, MD&A focuses on the state's major funds: the general fund, state highway fund, permanent school fund, colleges and universities funds, Texas Water Development Board funds and the Texas Department of Transportation Turnpike Authority. The fiduciary activities are excluded from the MD&A.

The state's financial statements for governmental funds, including general, special revenue, debt service, capital projects and permanent funds, have been prepared on the modified accrual basis of accounting in conformity with generally accepted accounting principles (GAAP). Revenues are recognized when measurable and available to finance current expenditures; expenditures are recognized when the related liability is incurred. The government-wide financial statements (statement of net assets and statement of activities), proprietary (including colleges and universities), pension and other employee benefit trust, external investment trust, private-purpose trust and agency funds are accounted for on the accrual basis. A summary of the state's significant accounting policies and other necessary disclosures are included in the notes to financial statements.

The state's internal accounting controls provide reasonable assurance regarding the safeguarding of assets against loss from unauthorized use or disposal and the reliability of financial records for preparing financial statements. The concept of reasonable assurance recognizes that the cost of a control should not exceed the resulting benefit.

Budgetary control is exercised through expenditure budgets for each agency. These budgets are entered on the statewide accounting system after an appropriations bill becomes law. The appropriations bill becomes law after passage by the Legislature, certification by my office that the amounts appropriated are within the estimated collections and the signing of the bill by the governor. Controls are maintained first at the agency level, with additional control at the fund and appropriation level to ensure that expenditures do not exceed authorized limits. Further detail on budgetary accounting for the state is found in the required supplementary information other than MD&A section.

Encumbrance accounting, under which purchase orders, contracts and other commitments for the expenditure of monies are recorded to reserve a portion of the applicable appropriations, is employed for purposes of budgetary control and contract compliance. Encumbrances at year-end do not constitute expenditures or liabilities.

## Economic Outlook and Major Initiatives

In calendar 2007, the Texas economy created jobs at nearly twice the national rate. Nonfarm employment in the state advanced by 2 percent or 204,400 jobs, reaching a total of 10.3 million Texas jobs in November 2007. The national rate of job growth was 1.3 percent for the year. As the number of workers increased for the fourth consecutive year, joblessness dropped to its lowest rates since 2000, with a Texas unemployment rate of 4.3 percent in November. Early in 2007, Texas' jobless rate edged below the nation's

for the first time in several years. By November, with the nation's unemployment rate at 4.6 percent, Texas' comparative advantage had widened to 0.3 percent.

As evidence of the state's relative economic health, Texas not only added more jobs than any other state in 2007, but added more jobs than second-place Florida and third-place California combined. In terms of percent change, Texas ranked fifth for its rate of job growth from November 2006 to November 2007 and was exceeded only by Utah, Wyoming, Montana and Louisiana.

There were more migrants to Texas in 2006 than to any other state, with the Census Bureau estimating that 218,745 more people moved to Texas during the year than moved away. A relatively healthy state economy was one reason, but the impact of Hurricane Katrina in Louisiana was another factor contributing to the flow of migrants. According to Census Bureau estimates, Texas accounted for more than 15 percent of the nation's total population growth between 2000-07, again more than doubling the increase of California and Florida combined.

Despite the positive nature of these statistics, overall state economic growth registered no more than average in 2007. The underlying story is that the national economy slowed significantly in 2007 while the Texas economy slowed much less. The state's gross domestic product rose 6.4 percent in 2007, for an inflation-adjusted increase of 3.3 percent. This matched the average annual growth rate over the past decade in Texas. Among industries, the fastest growth was in the oil and gas industry and the smallest increase was in government and "other services." Unlike in much of the nation, construction and real estate activity still contributed to Texas' growth in 2007, although at a slower pace. Gross state product in Texas reached $1.1 trillion dollars in 2007.

What really changed in 2007 was the nature of the state's economic growth. While much of the job growth in 2006 had been spurred by the healthy construction and energy sectors, mortgage lending and single-family housing starts followed national trends and withered considerably in 2007, causing a shift in construction toward multi-family projects and roads. Oil prices in 2007 stabilized somewhat after a three-year run-up but still fueled job opportunities in the state's energy-driven businesses. Although higher fuel prices have negative effects on consumers, they still have a modestly positive effect on the state's overall economy, because the oil and natural gas industry provides Texas with a large number of relatively high paying jobs from drilling and marketing operations around the world.

In 2006, goods-producing industries in Texas grew at a faster rate than the service-providing industries, but in 2007, the more typical pattern returned and service-providing industries grew at a faster pace. Natural resources and mining, which was up 8 percent, was still the state's fastest growing industry during the year, while construction, up 2.4 percent, slowed down compared to last year. Manufacturing, down 1.2 percent, lost jobs after three years of job increases. With increased oil and gas rig production, the state's manufacturing industry was spurred in 2007 by hiring in machinery and fabricated metal manufacturing, but losses in computers and electronics fabrication overshadowed these gains.

With outsourcing and productivity gains, losses in manufacturing employment would have been even greater had it not been for another year of strong export growth. The U.S. dollar continued to weaken during the year, making exports a bargain overseas. Texas has been the nation's largest exporting state since 2002 and during the first 10 months of 2007, the state's exports to other countries totaled $138.9 billion, up 11.6 percent from the first 10 months of 2006. Texas exports have increased 77 percent over the last five years and now account for 15 percent of the state's gross product. Texas currently accounts for more than one-seventh of total U.S. exports, based on export data from the World Institute of Social and Economic Research (WISER).

## Leading Indicators See Continued Expansion

The Comptroller's Index of Leading Economic Indicators suggests that moderate, but somewhat slower, economic growth will continue in Texas. The index, a composite of 10 indicators, is designed to forecast the state's employment growth four to six months in advance. It predicts a relatively stable state economy in 2008, provided that out-of-range economic shocks do not occur.

After posting extraordinary gains in 2005-06, consumer confidence in the West South Central States began edging back in the latter half of 2007, but it remained at a healthy level, 22 points above its 1985 baseline in December 2007. Since it is a major factor driving housing and other major purchases, consumer confidence is a key indicator to economic health.

High energy prices, although a draw on much of the economy, still have a small positive effect on the state's total gross state product as long as they remain sufficiently high to stimulate domestic and international drilling. The number of operating oil and gas rigs has increased 189 percent since dropping to 306 rigs in 2002, including a 13 percent gain over the past year. With an average of 884 drilling rigs in operation at the end of the year, 2007 was the state's most active year for oil and gas exploration since 1984.

The single-family housing market, following national trends, is the weak link in the economy today. Although the problem is far less pronounced in Texas, single-family housing permits fell by 27.9 percent in Texas during the first 11 months of 2007, compared to the same period of 2006. Steep declines in the housing arena have the potential to upset the national economy, which would certainly be felt in Texas. With several years of consumer spending fueled by mortgage equity withdrawals and home equity loans, consumer spending has outstripped income growth. There will be a substantial pull on wholesale and retail sales activity when this pattern stops.

On the bright side of the Texas housing market, multifamily housing permits for projects with five or more units increased 14.4 percent during the first 11 months of 2007. Texas home prices rose 5.2 percent over the past year, keeping up a trend of increases since 2001. Even with steep declines in prices in much of the nation, Texas continues to have some of the most undervalued residential real estate in the country, relative to household income, as calculated by Global Insight, Inc. The average price of a Texas house stood at $189,800 in the fall of 2007, according to a moving average of monthly data from the Texas A&M Real Estate Center. Although prices have remained firm, sales of existing homes in Texas during the first 11 months of 2007 fell by 5.3 percent.

Sales tax collections in Texas, an indicator of taxable retail sales activity, grew by a robust 9.4 percent in calendar 2007, following a particularly strong 12.1 percent increase in 2006 and growth every year since 2002. Vehicle sales tax receipts rose by 6.7 percent in 2007.

Texas is set to reach its sixteenth year of increases in new business incorporations, based on data for the first 10 months of 2007. In 2007, the state had a monthly average of 9,468 new incorporations, compared to the previous year's average of 9,227. Newly incorporated businesses are not always economically viable, but the growing number reflects an entrepreneurial willingness to invest in new ventures.

At the close of calendar 2007, four of the state's 10 leading economic indicators pointed toward an improved state economy in the upcoming months. Positive signs include an increase in new business incorporations, continued brisk growth in retail sales, increasing stock values in Texas corporations and higher oil prices. In contrast, consumer confidence has begun to falter, albeit from a high level, housing permits are off substantially and the average manufacturing workweek is getting shorter. Also, the U.S. leading economic index is tending downward. The Texas leading index reflects various possible outcomes for 2008, but somewhat subdued economic growth is expected to continue.

## Outlook for 2007-08

Texas' gross domestic product growth has outperformed U.S. growth in all but one year since 1991. The Comptroller's econometric forecast model predicts that the Texas increase will again exceed forecasted U.S. growth in both 2008-09, advancing by 3 percent in 2008 and another 3 percent in 2009. This will exceed the nation's growth rate by about one percentage point in 2008 and an estimated tenth of a percentage point in 2009. Employment growth in Texas will be 2 percent in 2008 and 1.9 percent in 2009, compared to a national annual average of 0.9 percent. The state's population growth in 2008 will stay near 1.5 percent, with net migration contributing an estimated 38 percent of total growth. For 2008, the state's population will average 24.3 million.

The price of oil remains unpredictable. Texas benefited from the impact of high energy prices on the state's oil and gas production, manufacturing and services sectors over the past three years. However, if oil and natural gas prices continue to climb, the national economy could easily slide into recession. Although Texas would be somewhat insulated from a recession's negative effects because of its relatively heavy concentration in the oil and gas industry, a national recession would nonetheless be felt in Texas. The state and national unemployment rates are likely to trend upward, with Texas averaging about 4.8 percent unemployment for 2008-09.

While growth in the global economy and a declining dollar have boosted U.S. export growth, there are signs the European economy is losing momentum. Although economic growth in Asia looks solid, any slowdown in U.S. exports will be felt in Texas, largely because Texas is the nation's largest exporting state. The continued low value of the U.S. dollar will price Texas-made products and service more competitively overseas, allowing exports to add fuel to economic growth.

Personal income growth in Texas is expected to remain healthy, although it will slow somewhat. Job growth helped personal income, expressed in nominal terms, to increase by 8.2 percent annually over the past two years, but slower job growth and reduced corporate profits should temper this to a 5.7 percent annual rate for 2008-09.

The Texas economy should outpace the U.S. economy for the same reasons that it is outperforming the national economy today. These include continued net migration into the state, a Sunbelt location at the middle of the nation's most vibrant economic regions - the South and the West, an experienced workforce, a comparatively healthy housing market, a strategic geographic position for Latin American trade, an oil and gas industry serving as a buffer for high fuel prices and a relatively low cost of doing business.

## Texas Revised Franchise Tax

The 79th Legislature, Third Called Session (2006) and the 80th Legislature (2007) revised the existing franchise tax to give property tax relief. House Bill 3 in the 2006 session and House Bill 3928 in the 2007 session amended the Texas Tax Code Chapter 171 and extended the coverage of the tax to include not only corporations and limited liability companies, but also certain partnerships, professional associations, joint ventures and business trusts, among others. Overall, this is expected to add about 200,000 new taxpayers.

In addition to the broadening of the taxable entities, the bills contain changes to the tax base and tax rate. The tax base switched from taxable capital and earned surplus to taxable margin. The taxpayer may compute taxable margin in one of three ways. The calculation with the lowest result is then subject to an apportionment factor that is based on the share of total gross receipts generated in Texas. The result is the apportioned margin to which the new tax rate of 1 percent is applied. Most businesses in the retail and wholesale trade sectors, however, are subject to a lower, 0.5 percent rate.

The revised franchise tax provides tax discounts to small businesses based on total revenue up to $900,000. Taxpayers with total revenue of $10,000,000 or less can use the E-Z option and apply a factor of 0.575 percent to their apportioned revenue. Moreover, taxable entities with total revenue of $300,000 or less or with tax due of less than $1,000, do not owe any tax.

Taxable entities will be required to file their first tax return under the new calculation during fiscal 2008.

## Property Tax Value Limitations

In 2001, the 77th Legislature enacted House Bill 1200 creating Tax Code Chapter 313, the Texas Economic Development Act (Act). The Act allows school districts to attract new taxable property and assist in new job creation by offering a tax credit and an eight-year limitation on the appraised value of real and personal tangible property for the maintenance and operations portion of a school district's tax rate. In exchange for the appraised value limitation and tax credit, a property owner is required to enter into an agreement with the school district to create a specific number of high-wage jobs and build or install specified types of real and personal property worth a certain amount.

To qualify, the property must be in a reinvestment zone and must be devoted to manufacturing, research and development or renewable energy generation. The amount of

investment and the minimum amount of the value limitation varies according to whether the school district is considered a rural or non-rural district and according to the amount of taxable property value in the school district.

In 2007, the 80th Legislature enacted House Bill 1470 to extend the expiration date of major subchapters of the Act from Dec. 31, 2007, to Dec. 31, 2011. The bill also modified the process requiring economic evaluations of proposed projects. Starting in 2008, rather than local school districts engaging a third party to conduct such evaluations, the Comptroller of Public Accounts will conduct the evaluations or contract with a third party for these analyses. In House Bill 1470, the Legislature also gave local school districts authority to waive the minimum number of jobs required by the Act if that number (10 for rural districts and 25 for non-rural districts) exceeds the industry standard for that type of facility.

Other legislation from the 80th Legislature (House Bill 2994, House Bill 3693 and House Bill 3732) requires the Comptroller to conduct a biennial study for the legislature of the progress of all value limitation agreements. House Bill 2994 also expanded the types of property eligible for value limitation agreements, adding nuclear power facilities, advanced clean energy projects and electric power generation using integrated gasification combined cycle technology.

## School Finance Lawsuit and Property Tax Relief

In November 2005, the Texas Supreme Court (Court)- finding that school districts had lost meaningful discretion in setting local tax rates - ruled that Texas' school finance system had become a constitutionally prohibited state property tax. The Court overturned a district court's rulings that the school finance system also violated the constitutional mandate for an adequate, efficient and suitable system of public education.

The Court set a deadline for legislative action of June 1, 2006, but gave little specific guidance about remedies, pointing to a number of general options, ranging from raising tax caps or increasing revenue, to structural reforms, such as school district consolidations or a complete restructuring of the school finance system.

In a 30-day special session ending in mid-May 2006, the Legislature passed a package of legislation to reform the state's primary business tax, increase the cigarette tax and other taxes, reduce school district property tax rates and provide local school districts with additional funding and discretion in setting local property tax rates.

Under the new legislation, most school districts' maintenance and operations (M&O) property tax rates were reduced for tax year 2006 to 88.7 percent of their 2005 rate and then allowed to increase - by local school board decision - up to four cents more. In tax year 2007, most school districts adopted M&O rates at 66.7 percent of their 2005 rate plus the optional four cents. But in recent elections, voters in almost 100 school districts chose to adopt even higher local tax rates allowed by the new legislation, many up to the new statutory M&O cap of $1.17 per hundred dollars of valuation for tax year 2007 payments.

## Deduction of Sales Taxes from Federal Taxes

In 1986, Congress passed the Tax Reform Act of 1986 (Act). The Act grew out of President Reagan's tax reform proposal, which called for the removal of all deductions for state and local taxes - whether based on income, property or sales. The final version of the Act left the deductions for income and property taxes intact, but eliminated the deductibility of sales taxes.

In 2004, Texas taxpayers benefited from legislation signed by President Bush that brought back the deduction of state and local sales taxes from federal income tax on returns filed for 2004-05. However, the option to deduct sales taxes was scheduled to expire at the end of the 2006 tax year. On Dec. 8, 2006, Congress adopted House Resolution 6111, the Tax Relief and Health Care Act of 2006, which President Bush signed on Dec. 20 of that year. The Act reinstated the itemized deduction for state sales taxes retroactively to the beginning of 2006 with an expiration date of tax year 2007. The extension allows residents of Texas and other states without a personal income tax to deduct major taxes paid to state governments.

In 2007, Congress considered Senate proposals to make the sales tax deduction permanent and a House proposal to extend the sales tax deduction for one additional year-

through tax year 2008. As of Jan. 1, 2008, neither proposal has been passed into law. Supporters of the proposal anticipate more efforts to extend the deduction when Congress reconvenes. If the sales tax deduction is not extended, taxpayers will be able to deduct 2007 sales taxes from federal income taxes due in April 2008, but 2008 sales taxes will not be deductible from federal income taxes due the following year.

# Awards and Acknowledgments

## Certificate of Achievement

The Government Finance Officers Association (GFOA) of the United States and Canada awarded a Certificate of Achievement for Excellence in Financial Reporting to the state of Texas for its *Comprehensive Annual Financial Report* for the fiscal year ended Aug. 31, 2006. The Certificate of Achievement is a prestigious national award that recognizes conformance with the highest standards for preparation of state and local government financial reports.

In order to be awarded a Certificate of Achievement, a government unit must publish an easily readable and efficiently organized *Comprehensive Annual Financial Report* whose contents conform to program standards. Such reports must satisfy both generally accepted accounting principles and applicable legal requirements.

A Certificate of Achievement is valid for a period of one year only. The state of Texas has received a Certificate of Achievement for the last 17 years (fiscal years ended August 1990 through 2006). We believe our current report continues to conform to the Certificate of Achievement Program requirements and are submitting it to the GFOA.

I will continue to maintain a highly qualified and professional staff to make this certification possible.

## Acknowledgments

The preparation of this report requires the collective efforts of literally hundreds of financial personnel throughout state government, including the dedicated management and staff of my Financial Reporting section and Fiscal Management Division; the chief financial officers, chief accountants and their staff at each agency and the management and staff of the State Auditor's Office. I sincerely appreciate the dedicated efforts of all these individuals who continue to strive for improvements that will make Texas a national leader in quality financial reporting.

Sincerely,
Susan Combs

# State of Texas Comprehensive Annual Financial Report

## State of Texas Elected State Officials

### Executive

Rick Perry
Governor

David Dewhurst
Lieutenant Governor

Susan Combs
State Comptroller

Greg Abbott
Attorney General

Jerry Patterson
Land Commissioner

Todd Staples
Commissioner of Agriculture

Elizabeth Ames Jones
Victor G. Carrillo
Michael L. Williams
Railroad Commissioners

### Legislative

Lieutenant Governor, David Dewhurst, presides over the Senate

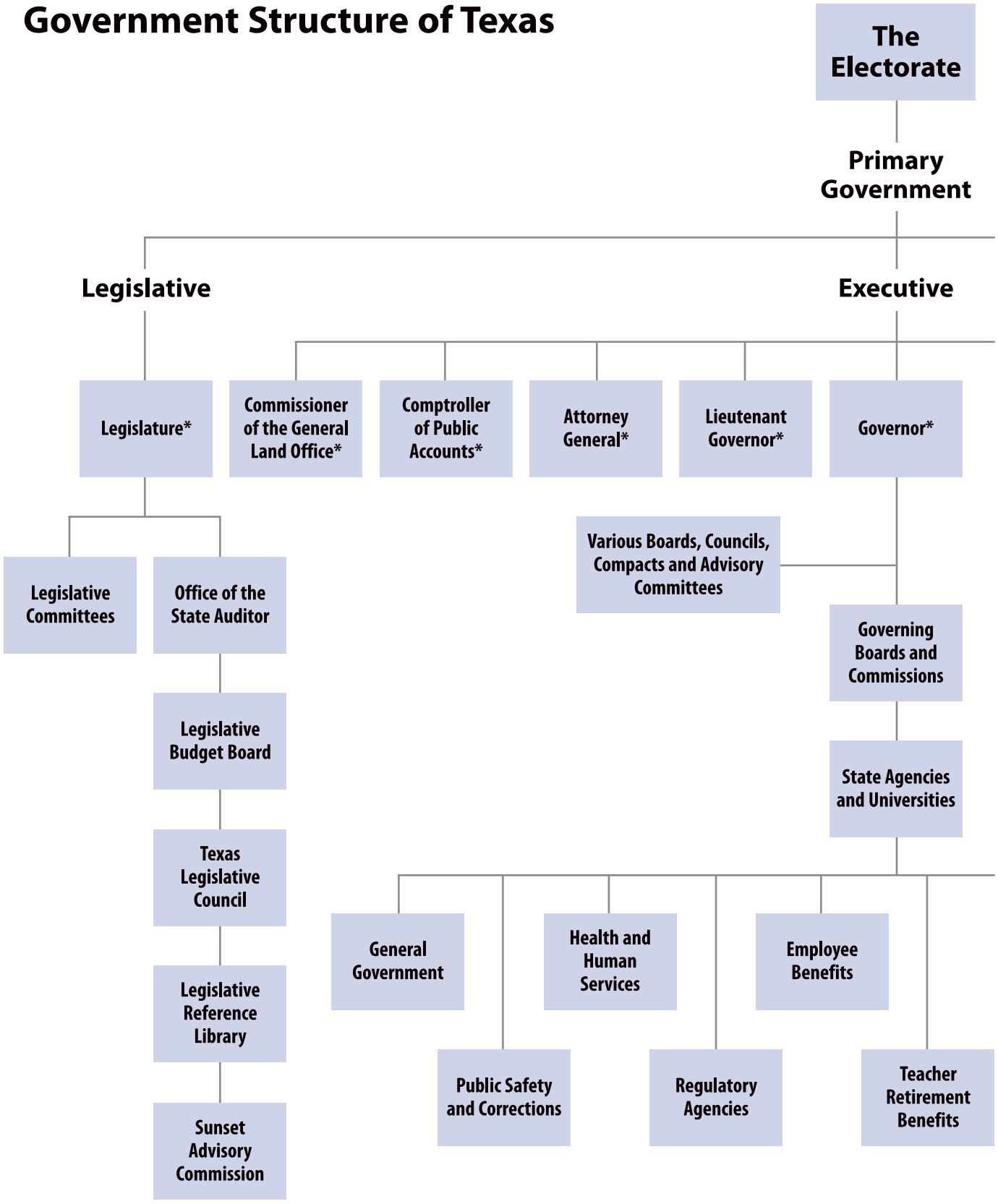
Tom Craddick
Speaker of the House of Representatives

### Judicial

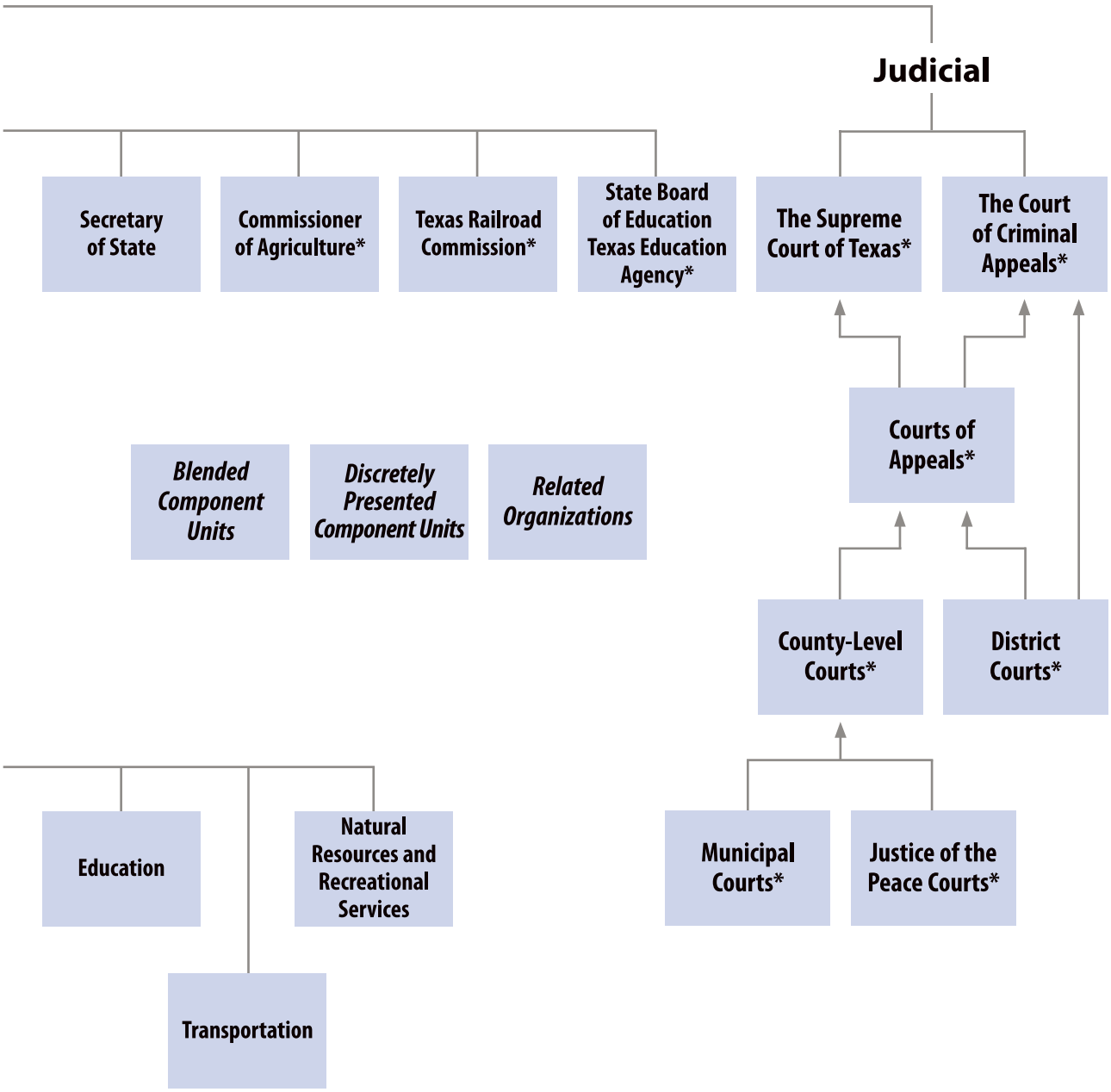
Wallace B. Jefferson
Chief Justice of the Supreme Court

Sharon Keller
Presiding Judge, Court of Criminal Appeals

# Government Structure of Texas




* Elected Offices


Judicial
Secretary of State
Commissioner of Agriculture*
Texas Railroad Commission*
State Board of Education Texas Education Agency*
The Supreme Court of Texas*
The Court of Criminal Appeals*
Courts of Appeals*
Blended Component Units
Discretely Presented Component Units
Related Organizations
County-Level Courts*
District Courts*
Education
Natural Resources and Recreational Services
Municipal Courts*
Justice of the Peace Courts*
Transportation

# Certificate of Achievement for Excellence in Financial Reporting

Presented to

## State of Texas

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended
August 31, 2006

A Certificate of Achievement for Excellence in Financial Reporting is presented by the Government Finance Officers Association of the United States and Canada to government units and public employee retirement systems whose comprehensive annual financial reports (CAFRs) achieve the highest standards in government accounting and financial reporting.

President

Executive Director

# Financial Section

State Auditor's Office
John Keel, CPA
State Auditor

## INDEPENDENT AUDITOR'S REPORT

The Honorable Rick Perry, Governor
The Honorable Susan Combs, Comptroller of Public Accounts
The Honorable David Dewhurst, Lieutenant Governor
The Honorable Tom Craddick, Speaker of the House of Representatives
and
Members of the Legislature, State of Texas

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate discretely presented component unit and remaining fund information of the State of Texas as of and for the year ended August 31, 2007, which collectively comprise the State's basic financial statements as listed in the Table of Contents. These financial statements are the responsibility of the State Comptroller of Public Accounts. Our responsibility is to express opinions on these financial statements based on our audit.

We did not audit the financial statements of the following entities and fund:

- The University of Texas Investment Management Company (UTIMCO) and the University of Texas M.D. Anderson Cancer Center (UTMDACC), which constitute 59 and 8 percent, respectively, of the assets of Colleges and Universities, a major enterprise fund. UTIMCO and UTMDACC also constitute 43 and 6 percent, respectively, of the assets of the business-type activities.
- The Permanent School Fund, a major governmental fund, which constitutes 54 percent of the assets of the governmental activities.
- The Texas Local Governmental Investment Pool (TexPool), which constitutes 8 percent, of the assets of the aggregate discretely presented component unit and remaining fund information, which primarily consists of fiduciary funds.

The financial statements listed above were audited by other auditors whose reports thereon have been furnished to us, and our opinion, insofar as it relates to the amounts included for these entities and TexPool, is based on the reports of the other auditors.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The financial statements of UTIMCO, UTMDACC, and TexPool were not audited in accordance with *Government Auditing Standards*. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the State's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting

SAO No. 08-335

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principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit and the reports of other auditors provide a reasonable basis for our opinions.

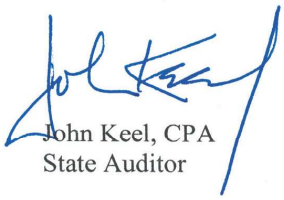
In our opinion, based on our audit and the reports of other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate discretely presented component unit and remaining fund information of the State of Texas as of August 31, 2007, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis, the budgetary comparison schedule, and the modified approach to reporting infrastructure assets are not required parts of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. This required supplementary information is the responsibility of the State Comptroller of Public Accounts. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the State's basic financial statements. The combining financial statements, as listed in the Table of Contents, are presented for purposes of additional analysis and are not a required part of the basic financial statements. These financial statements are also the responsibility of the State Comptroller of Public Accounts. This supplemental information has been subjected to the auditing procedures applied by us and the other auditors in the audit of the basic financial statements and, in our opinion, based on our audit and the reports of other auditors, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

We did not audit the introductory section or the statistical section and, accordingly, we express no opinion on them.

In accordance with *Government Auditing Standards*, we will issue a separate report on our consideration of the State's internal control over financial reporting and on our tests of the State's compliance with certain provisions of laws, regulations, contracts, and grants and on other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.



John Keel, CPA
State Auditor

February 20, 2008

# Management's Discussion and Analysis

# Management's Discussion and Analysis

The following is a discussion and analysis of the state of Texas' financial performance for the fiscal year ended Aug. 31, 2007. Use this section in conjunction with the state's basic financial statements. Comparative data is available and presented for this 2007 report.

# Highlights

## Government-wide

### Net Assets

The assets of the state of Texas exceeded its liabilities by $141.2 billion as of Aug. 31, 2007, an increase of $13.3 billion or 10.4 percent from fiscal 2006.

## Fund Level

### Governmental Funds

As of Aug. 31, 2007, the state's governmental funds reported a combined ending fund balance of $42.4 billion, an increase of $7.5 billion or 21.7 percent from fiscal 2006. The state reported a positive unreserved fund balance of $11.2 billion in fiscal 2007.

### Proprietary Funds

The proprietary funds reported net assets of $42.9 billion as of Aug. 31, 2007, an increase of $5.2 billion or 13.7 percent from fiscal 2006.

## Long-Term Debt

The state's total bonds outstanding increased by $3.1 billion or 15 percent during fiscal 2007 for governmental and business-type activities. This amount represents the net difference between net issuances, payments and refunding of outstanding bond debt. During the fiscal year, the state issued bonds totaling $6.2 billion. More detailed information regarding the government-wide, fund level and long-term debt activities can be found in the debt administration section of this management's discussion and analysis (MD&A).

# Overview of the Financial Statements

The reporting focus of this report is on the state as a whole and on the major individual funds. The report presents a more comprehensive view of the state's financial activities and makes it easier to compare the performance of Texas state government to that of other governments.

The Financial Section of this annual report presents the state's financial activities and position in four parts-(1) MD&A (this part), (2) the basic financial statements, (3) required supplementary information other than MD&A and (4) other supplementary information presenting combining statements. The report also includes statistical and economic data.

The basic financial statements include government-wide financial statements, fund financial statements and notes to financial statements that provide more detailed information to supplement the basic financial statements.

## Reporting on the State as a Whole

The government-wide financial statements are designed to present an overall picture of the financial position of the state. These statements consist of the statement of net assets and the statement of activities, which are prepared using the economic resources measurement focus and the accrual basis of accounting. This means that all the current year's revenues and expenses are included, regardless of when cash is received or paid, producing a view of financial position similar to that presented by most private-sector companies.

The statement of net assets combines and consolidates the government's current financial resources with capital assets and long-term obligations. This statement includes all of the government's assets and liabilities.

Net assets, which are the difference between the state's assets and liabilities, represent one measure of the state's financial health.

Other indicators of the state's financial health include the condition of its roads and highways (infrastructure) and economic trends affecting the state's future tax revenues.

The statement of activities focuses on both the gross and net cost of various activities (governmental, business-

type and component units); these costs are paid by the state's general tax and other revenues. This statement summarizes the cost of providing (or the subsidy provided by) specific government services and includes all current year revenues and expenses.

The government-wide statement of net assets and the statement of activities divide the state's activities into three types.

### Governmental Activities

The state's basic services are reported here, including general government, education, employee benefits, teacher retirement benefits, health and human services, public safety and corrections, transportation, natural resources and recreation and regulatory services. Taxes, fees and federal grants finance most of these activities.

### Business-Type Activities

Activities for which the state charges a fee to customers to pay most or all of the costs of certain services it provides are reported as business-type activities. The state's colleges and universities are included as business-type activities.

### Component Units

Component units are legally separate organizations for which the state is either financially accountable or the nature and significance of their relationship with the state is such that exclusion would cause the state's financial statements to be misleading or incomplete. These entities are reported in a separate column in the government-wide financial statements. The state includes 15 separate legal entities in the notes to this report.

## Reporting on the State's Most Significant Funds

Fund financial statements provide additional detail about the state's financial position and activities. Some information presented in the fund financial statements differs from the government-wide statements due to the perspective and basis of accounting used. Funds are presented on the fund level statements as major or nonmajor based on criteria set by the Governmental Accounting Standards Board (GASB).

A fund is a separate accounting entity with a self-balancing set of accounts. The state uses funds to keep track of sources of funding and spending related to specific activities.

## Governmental Funds

A majority of the state's activities is reported in governmental funds. Reporting of these funds focuses on how money flows into and out of the funds and amounts remaining at year end for future spending.

Governmental funds are accounted for using the modified accrual basis of accounting, which measures cash and other assets that can be readily converted to cash. The governmental fund statements provide a detailed short-term view of the state's general governmental operations and the basic services it provides. This information should help determine the level of resources available for the state's programs. The reconciliation following the fund financial statements explains the differences between the government's activities, reported in the government-wide statement of net assets and the government-wide statement of activities, and the governmental funds. The general fund, state highway fund and permanent school fund are reported as major governmental funds.

## Proprietary Funds

When the state charges customers for services it provides, these activities are generally reported in proprietary funds. Services provided to outside (non-governmental) customers are reported in enterprise funds, a component of proprietary funds, and are accounted for using the economic resources measurement focus and the accrual basis of accounting. These are the same business-type activities reported in the government-wide financial statements, but are reported here to provide information at the fund level.

Services provided by one program of the state to another are reported in internal service funds, the other component of proprietary funds. The state's employees' life, accident and health insurance benefits fund is reported as the only internal service fund.

Colleges and universities, Texas Water Development Board funds and the Texas Department of Transportation Turnpike Authority are shown as major proprietary funds.

## Reporting on the State's Fiduciary Responsibilities

The state is the trustee or fiduciary for seven defined benefit plans and one defined contribution plan. It is also responsible for other assets that can be used only for trust beneficiaries. All state fiduciary activities are reported in separate statements of fiduciary net assets and changes in fiduciary net assets. The activities are reported separately from other financial activities because the state cannot use the assets to finance state operations. The state's fiduciary responsibilities include ensuring that the assets reported in these funds are used for their intended purposes.

# Financial Analysis of the State as a Whole

## Net Assets

Total assets of the state on Aug. 31, 2007, were $197.2 billion, an increase of $15.6 billion. Total liabilities as of Aug. 31, 2007, were $55.9 billion, an increase of $2.3 billion or 4.2 percent. Net assets were affected by a number of factors. Cash and cash equivalents grew $1.2 billion from fiscal 2006 and investments increased $6.9 billion. Net capital assets increased $4.9 billion, from additions to the state's highway system and college and university construction projects. The change in total liabilities is primarily in noncurrent liabilities with a net change in note and bond debt of $2.4 billion. The net asset balance was $141.2 billion in fiscal 2007, an increase of $13.3 billion or 10.4 percent. Of the state's net assets, $63.8 billion were invested in capital assets, net of related debt, while $55.2 billion were restricted by statute or other legal requirements and were not available to finance day-to-day operations of the state. Unrestricted net assets were $22.3 billion. The state's bonded indebtedness was $24.2 billion, which included new issuances of $6.4 billion in state bonds to finance new construction, housing, water conservation and other projects. Approximately $3.2 billion in bonded debt was retired or refunded.

### Statement of Net Assets

August 31, 2007 and 2006 (Amounts in Thousands)

| | Governmental Activities | | Business-Type Activities | | Total Primary Government | |
|---|---|---|---|---|---|---|
| | 2007 | 2006 | 2007 | 2006 | 2007 | 2006 |
| **ASSETS** | | | | | | |
| Assets Other Than Capital Assets | $ 59,609,496 | $ 53,920,494 | $ 57,302,088 | $ 52,234,597 | $ 116,911,584 | $ 106,155,091 |
| Capital Assets | 63,802,726 | 60,318,012 | 16,482,661 | 15,113,941 | 80,285,387 | 75,431,953 |
| Total Assets | 123,412,222 | 114,238,506 | 73,784,749 | 67,348,538 | 197,196,971 | 181,587,044 |
| **LIABILITIES** | | | | | | |
| Current Liabilities | 15,627,216 | 17,951,094 | 11,521,853 | 9,875,245 | 27,149,069 | 27,826,339 |
| Noncurrent Liabilities | 9,434,902 | 6,125,253 | 19,364,288 | 19,734,021 | 28,799,190 | 25,859,274 |
| Total Liabilities | 25,062,118 | 24,076,347 | 30,886,141 | 29,609,266 | 55,948,259 | 53,685,613 |
| **NET ASSETS** | | | | | | |
| Invested in Capital Assets, Net of Related Debt | 56,438,132 | 55,473,237 | 7,342,429 | 6,871,404 | 63,780,561 | 62,344,641 |
| Restricted | 29,346,612 | 25,992,910 | 25,815,068 | 22,812,284 | 55,161,680 | 48,805,194 |
| Unrestricted | 12,565,360 | 8,696,012 | 9,741,111 | 8,055,584 | 22,306,471 | 16,751,596 |
| Total Net Assets | $ 98,350,104 | $ 90,162,159 | $ 42,898,608 | $ 37,739,272 | $ 141,248,712 | $ 127,901,431 |

## Changes in Net Assets

The state earned program revenues of $63.3 billion and general revenues of $40.7 billion, for total revenues of $104 billion, an increase of $8.3 billion or 8.7 percent. The major components of this increase are taxes, which were up by $3.1 billion, operating grants and contributions, up by $2.8 billion and charges for services, which increased $2.3 billion. Sales and use tax increased almost $1.8 billion and cigarette and tobacco taxes increased $778.7 million over the prior year.

The expenses of the state were $90.5 billion, an increase of $6.9 billion or 8.3 percent. The expense fluctuations in governmental activities are largely attributable to the health and human services function and education function, due to increased spending for urban and rural hospitals, teacher pay raises and high schools. In the business-type activities, colleges and universities expenses were the largest increase. Other proprietary entities showed relatively stable activities between the prior and current years.

As a result of revenues exceeding expenses, the state's total net assets increased by $13.3 billion, an increase of 10.4 percent. Revenues and expenses of the state's governmental and business-type activities are detailed on the following page.

Further discussion of results for improvement in the state's financial condition follows in the analysis of the state's funds. Economic strength through most of the year, plus legislative changes, brought higher tax revenues and fees. The largest benefactors were education, where teachers received pay raises, and health and human services, where urban and rural hospitals received additional state funding.

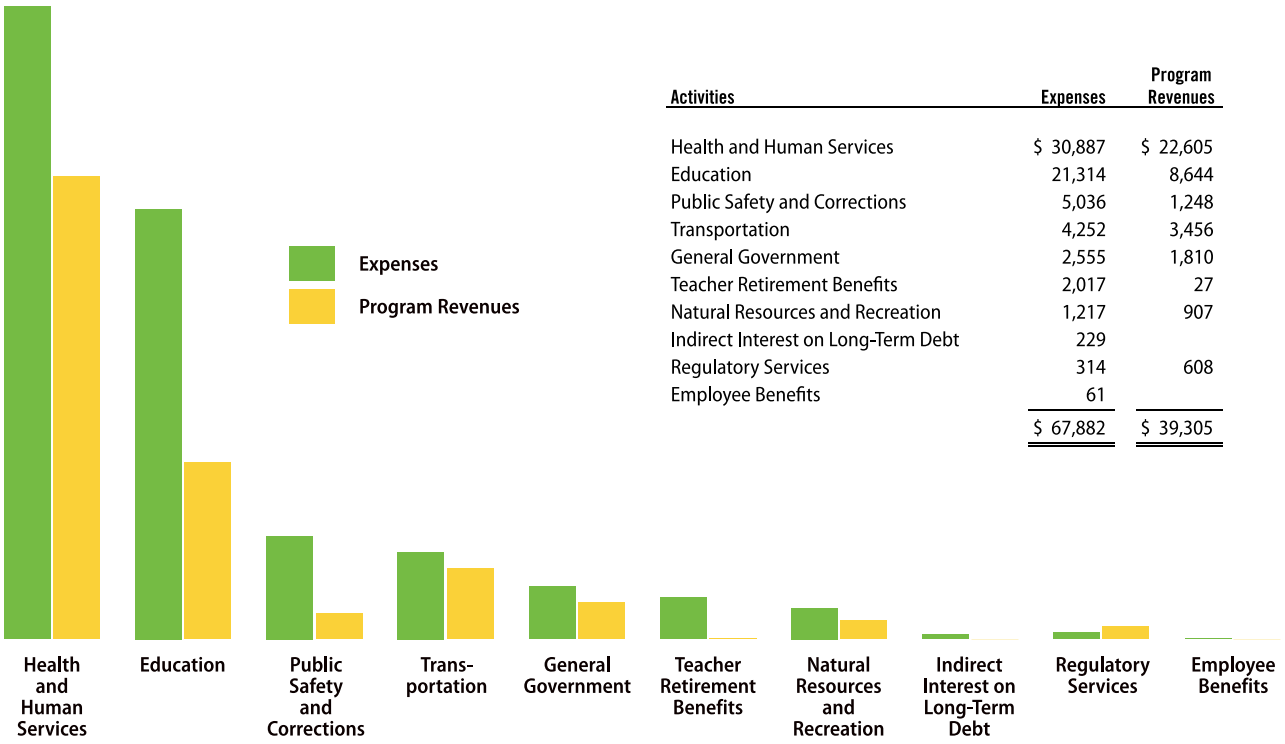
# Changes in Net Assets

For the Fiscal Years Ended August 31, 2007 and 2006 (Amounts in Thousands)

| | Governmental Activities | | Business-Type Activities | | Total Primary Government | |
|---|---|---|---|---|---|---|
| | 2007 | 2006 | 2007 | 2006 | 2007 | 2006 |
| **REVENUES** | | | | | | |
| Program Revenues: | | | | | | |
| Charges for Services | $ 7,485,972 | $ 6,080,506 | $14,831,991 | $13,934,320 | $ 22,317,963 | $ 20,014,826 |
| Operating Grants and Contributions | 29,995,409 | 28,979,226 | 9,001,427 | 7,200,099 | 38,996,836 | 36,179,325 |
| Capital Grants and Contributions | 1,823,686 | 2,803,006 | 197,731 | 155,541 | 2,021,417 | 2,958,547 |
| Total Program Revenues | 39,305,067 | 37,862,738 | 24,031,149 | 21,289,960 | 63,336,216 | 59,152,698 |
| General Revenues: | | | | | | |
| Taxes | 37,071,589 | 33,993,845 | | | 37,071,589 | 33,993,845 |
| Unrestricted Investment Earnings | 941,938 | 760,207 | 245,977 | 55,150 | 1,187,915 | 815,357 |
| Settlement of Claims | 538,836 | 583,787 | 283 | 94 | 539,119 | 583,881 |
| Gain on Sale of Capital Assets | 3,942 | 2,762 | 13,363 | 276 | 17,305 | 3,038 |
| Other General Revenues | 1,627,330 | 1,071,679 | 266,722 | 91,017 | 1,894,052 | 1,162,696 |
| Total General Revenues | 40,183,635 | 36,412,280 | 526,345 | 146,537 | 40,709,980 | 36,558,817 |
| Total Revenues | 79,488,702 | 74,275,018 | 24,557,494 | 21,436,497 | 104,046,196 | 95,711,515 |
| **EXPENSES** | | | | | | |
| General Government | 2,555,309 | 2,681,117 | 186,628 | 162,499 | 2,741,937 | 2,843,616 |
| Education | 21,313,526 | 18,025,550 | 17,165,602 | 15,982,582 | 38,479,128 | 34,008,132 |
| Employee Benefits | 61,171 | 56,718 | | | 61,171 | 56,718 |
| Teacher Retirement Benefits | 2,017,000 | 1,932,325 | 909,845 | 813,133 | 2,926,845 | 2,745,458 |
| Health and Human Services | 30,886,484 | 28,808,315 | 1,204,609 | 1,253,431 | 32,091,093 | 30,061,746 |
| Public Safety and Corrections | 5,035,761 | 5,084,923 | 75,305 | 73,775 | 5,111,066 | 5,158,698 |
| Transportation | 4,252,129 | 4,452,154 | 125,910 | 16,339 | 4,378,039 | 4,468,493 |
| Natural Resources and Recreation | 1,217,201 | 961,178 | 283,653 | 284,241 | 1,500,854 | 1,245,419 |
| Regulatory Services | 314,266 | 282,067 | | | 314,266 | 282,067 |
| Indirect Interest on Long-Term Debt | 229,354 | 54,121 | | | 229,354 | 54,121 |
| Lottery | | | 2,691,210 | 2,687,084 | 2,691,210 | 2,687,084 |
| Total Expenses | 67,882,201 | 62,338,468 | 22,642,762 | 21,273,084 | 90,524,963 | 83,611,552 |
| Excess Before Contributions, Special Items and Transfers | 11,606,501 | 11,936,550 | 1,914,732 | 163,413 | 13,521,233 | 12,099,963 |
| Capital Contributions | 309 | 1,449 | 1,364 | 3,874 | 1,673 | 5,323 |
| Contributions to Permanent and Term Endowments | | | 184,193 | 123,939 | 184,193 | 123,939 |
| Special Items | | | (318,813) | (38,898) | (318,813) | (38,898) |
| Transfers | (3,383,910) | (3,513,639) | 3,383,910 | 3,513,639 | | |
| Change in Net Assets | 8,222,900 | 8,424,360 | 5,165,386 | 3,765,967 | 13,388,286 | 12,190,327 |
| Net Assets, Beginning Balance | 90,162,159 | 81,677,916 | 37,739,272 | 33,909,713 | 127,901,431 | 115,587,629 |
| Restatements | (34,955) | 59,883 | (6,050) | 63,592 | (41,005) | 123,475 |
| Net Assets, Beginning Balance, as Restated | 90,127,204 | 81,737,799 | 37,733,222 | 33,973,305 | 127,860,426 | 115,711,104 |
| Net Assets, Ending Balance | $98,350,104 | $90,162,159 | $42,898,608 | $37,739,272 | $141,248,712 | $127,901,431 |

## Expenses and Program Revenues: Governmental Activities

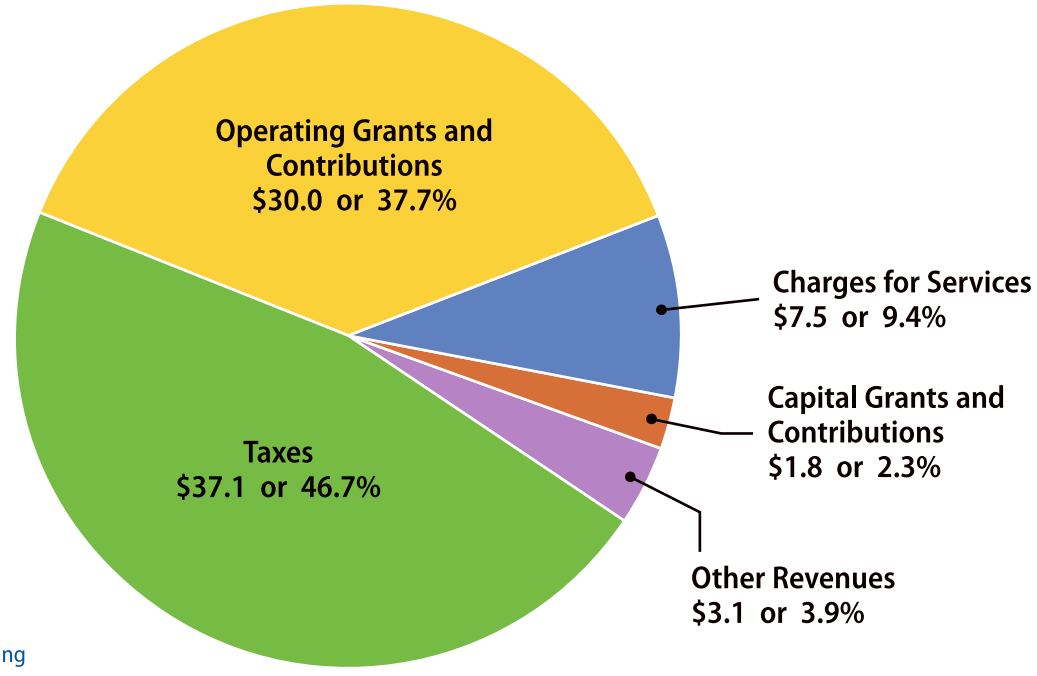
For the Fiscal Year Ended August 31, 2007 (In Millions)




| Activities | Expenses | Program Revenues |
|---|---|---|
| Health and Human Services | $ 30,887 | $ 22,605 |
| Education | 21,314 | 8,644 |
| Public Safety and Corrections | 5,036 | 1,248 |
| Transportation | 4,252 | 3,456 |
| General Government | 2,555 | 1,810 |
| Teacher Retirement Benefits | 2,017 | 27 |
| Natural Resources and Recreation | 1,217 | 907 |
| Indirect Interest on Long-Term Debt | 229 | |
| Regulatory Services | 314 | 608 |
| Employee Benefits | 61 | |
| | $ 67,882 | $ 39,305 |

## Revenue by Source: Governmental Activities

For the Fiscal Year Ended August 31, 2007 (In Billions)*

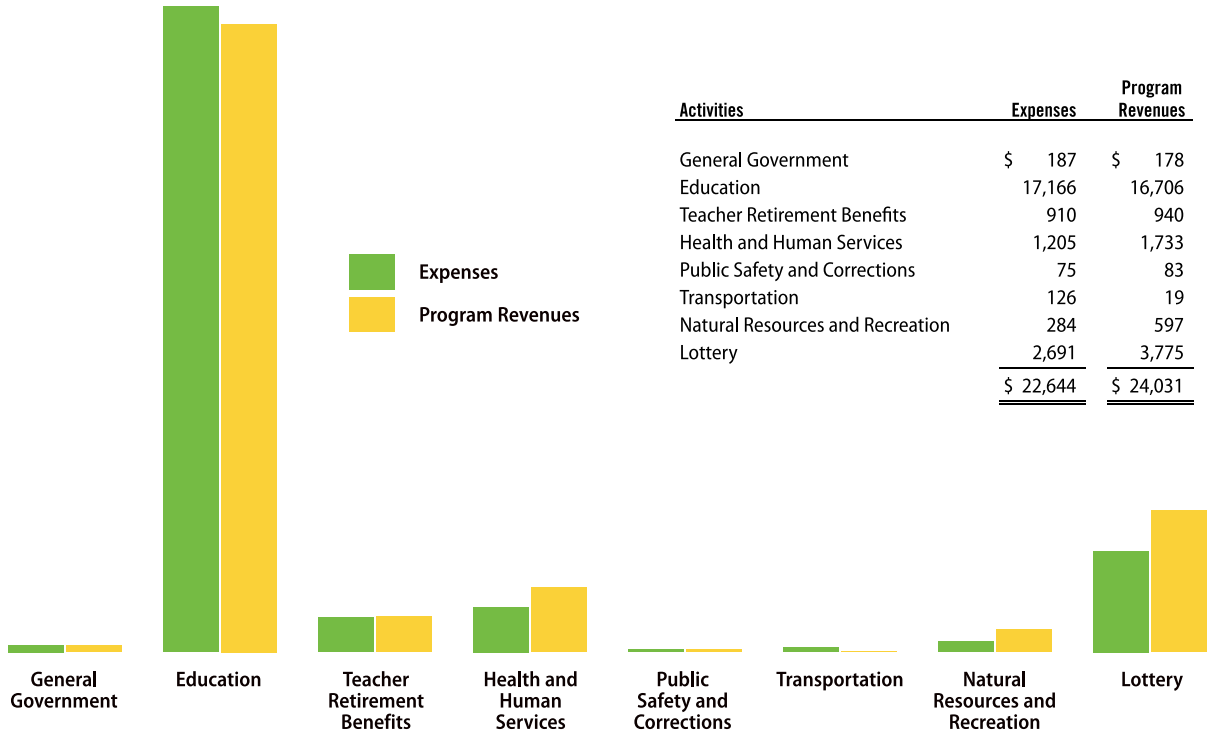



**Total = $79.5 Billion**

* Totals may not add due to rounding

## Expenses and Program Revenues: Business-Type Activities

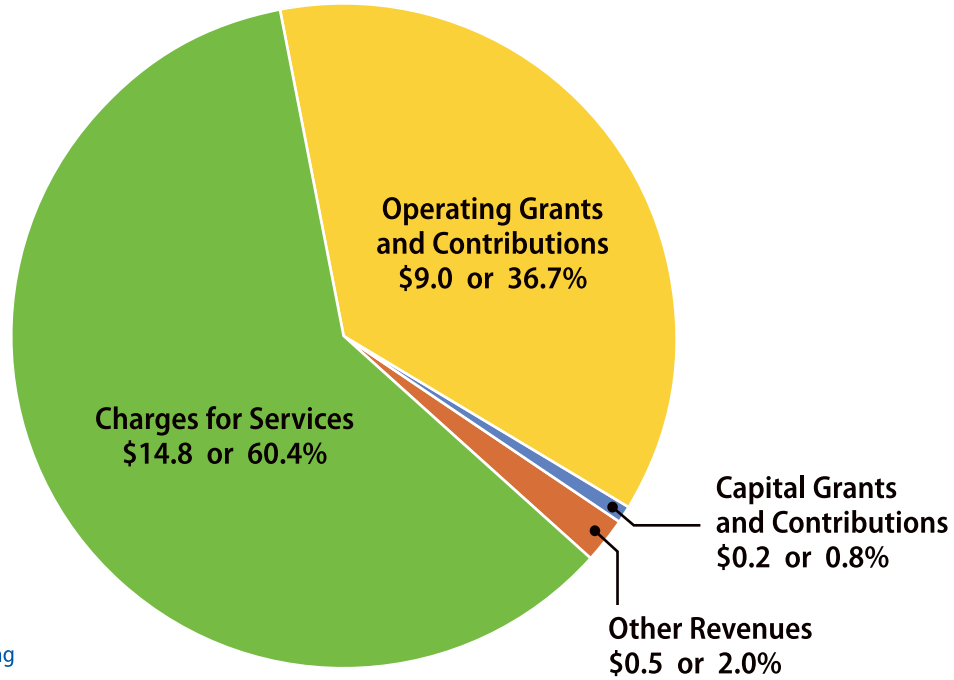
For the Fiscal Year Ended August 31, 2007 (In Millions)




| Activities | Expenses | Program Revenues |
|---|---|---|
| General Government | $ 187 | $ 178 |
| Education | 17,166 | 16,706 |
| Teacher Retirement Benefits | 910 | 940 |
| Health and Human Services | 1,205 | 1,733 |
| Public Safety and Corrections | 75 | 83 |
| Transportation | 126 | 19 |
| Natural Resources and Recreation | 284 | 597 |
| Lottery | 2,691 | 3,775 |
| | $ 22,644 | $ 24,031 |

## Revenue by Source: Business-Type Activities

For the Fiscal Year Ended August 31, 2007 (In Billions)*


Operating Grants and Contributions $9.0 or 36.7%
Charges for Services $14.8 or 60.4%
Capital Grants and Contributions $0.2 or 0.8%
Other Revenues $0.5 or 2.0%

**Total = $24.5 Billion**

* Totals may not add due to rounding

### Governmental Activities

The governmental activities program revenue is $39.3 billion, including charges for services of $7.5 billion, operating grants and contributions of $30 billion and $1.8 billion reported in capital grants and contributions. The largest increase, $1.4 billion, was for charges for services, which includes fee revenues and charges for goods and services. In addition, operating grants and contributions program revenues increased by $1 billion. The largest changes in these two revenue sources were attributable to the health and human services function where there were increases in medical charges and with federal grants. Governmental activities expenses were $67.9 billion, resulting in a net cost for governmental services of $28.6 billion, an increase of $4.1 billion or 16.8 percent above the cost of services from the prior year.

**Net Cost (Income) of the State's Governmental Activities**
For the Fiscal Year Ended August 31, 2007 (Amounts in Thousands)

| | Total Cost of Services | Net Cost (Income) of Services |
|---|---|---|
| General Government | $ 2,555,309 | $ 744,949 |
| Education | 21,313,526 | 12,669,388 |
| Employee Benefits | 61,171 | 61,055 |
| Teacher Retirement Benefits | 2,017,000 | 1,990,339 |
| Health and Human Services | 30,886,484 | 8,281,873 |
| Public Safety and Corrections | 5,035,761 | 3,787,314 |
| Transportation | 4,252,129 | 796,200 |
| Natural Resources and Recreation | 1,217,201 | 310,404 |
| Regulatory Services | 314,266 | (293,742) |
| Indirect Interest on Long-Term Debt | 229,354 | 229,354 |
| Total | $67,882,201 | $28,577,134 |

**Net Cost (Income) of the State's Business-Type Activities**
For the Fiscal Year Ended August 31, 2007 (Amounts in Thousands)

| | Total Cost of Services | Net Cost (Income) of Services |
|---|---|---|
| General Government | $ 186,628 | $ 8,543 |
| Education | 17,165,602 | 459,294 |
| Teacher Retirement Benefits | 909,845 | (30,080) |
| Health and Human Services | 1,204,609 | (528,495) |
| Public Safety and Corrections | 75,305 | (7,474) |
| Transportation | 125,910 | 106,996 |
| Natural Resources and Recreation | 283,653 | (313,417) |
| Lottery | 2,691,210 | (1,083,754) |
| Total | $22,642,762 | $ (1,388,387) |

All functions of governmental activities in the government-wide statement of activities are in deficit except for the regulatory services function that reports a surplus. The regulatory services function consists mostly of professional licensing agencies, which are required to set professional license fees at a level sufficient to cover costs of operations. The tax collections of the state provide the primary source of funding, which added to program revenues, support payment for the governmental services.

### Business-Type Activities

Business-type activities generated program revenue of $24 billion, including charges for services of $14.8 billion, operating grants and contributions of $9 billion and $197.7 million reported in capital grants and contributions. The total expenses for business-type activities were $22.6 billion. There was a total net gain from the government's business-type activities of $5.2 billion. The largest positive change occurred in the college and university sector, which reduced the cost of education services by $1.4 billion, offsetting higher costs with increased fees and improved returns from investment activity.

## Financial Analysis of the State's Funds

### Governmental Funds

As of Aug. 31, 2007, governmental funds reported fund balances of $42.4 billion. Of this total amount, $11.2 billion constitutes unreserved fund balances and $31.2 billion reserved. The general fund reported a positive $8.7 billion unreserved balance.

### General Fund

The fund balance for the general fund as of Aug. 31, 2007, was $10.8 billion, an improvement of $3.5 billion from the $7.3 billion balance in fiscal 2006. As discussed in Budgetary Highlights, an increase in tax collections of $2.1 billion was largely attributable to oil, gas and tobacco taxes. Revenues and expenses related to health care showed increases of $1.2 billion and $2.1 billion, respectively.

Education expenditures increased almost $3 billion. A combination of factors accounted for this. These included the first year of impact for local property tax relief, a teacher pay raise and an increase in the allotment for high school spending.

### State Highway Fund

The fund balance for the state highway fund as of Aug. 31, 2007, was $12.2 million, a decrease of $243.5 million from $255.7 million as of Aug. 31, 2006. Federal revenues dropped $962.3 million from fiscal 2006. But, the Texas Department of Transportation was able to increase capital spending by $417 million through the utilization of debt financing tools, by spending down equity and by increasing transfers from the Texas Mobility fund.

### Permanent School Fund

The fund balance for the permanent school fund (Fund) as of Aug. 31, 2007, totaled $26.8 billion, an increase of $2.9 billion since Aug. 31, 2006. Asset growth facilitated by income generation increased the fair value of investments from $23.2 billion in fiscal 2006 to $26 billion in fiscal 2007, an increase of $2.8 billion. The Fund recognized $3.6 billion in interest, investment and land income, an increase of $1.2 billion above fiscal 2006. This increase was a combination of factors that included growth in equity and fixed income holdings, increased revenue from securities lending activity and expansion into emerging markets. Value in the fund provided $843.1 million in transfers to provide funding for public education.

## Proprietary Funds

Proprietary funds reported net assets of $42.9 billion as of Aug. 31, 2007, an increase of $5.2 billion from fiscal 2006. Colleges and universities, Texas Water Development Board funds and the Texas Department of Transportation Turnpike Authority are discussed separately. In addition, the Texas Workforce Commission unemployment trust fund accounts realized a net asset increase of $400.1 million as positive economic conditions continued to result in lower benefit payments. At the same time a $318.8 million surplus refund in tax credits was made to eligible employers by the Commission as explained in Note 23.

The Texas Prepaid Higher Education Tuition Board, reported a $164.6 million unfunded liability for fiscal 2007, an increase in the unfunded amount by $54.3 million from last year. Primary sources of the change were assumptions about the interest rates on investment returns and increases to tuition costs. On the positive side, actual investment performance was 4.3 percent higher than the assumed rate for fiscal 2007.

### Colleges and Universities

Colleges and universities net assets as of Aug. 31, 2007, totaled $36.8 billion, an increase of $4.4 billion from Aug. 31, 2006. The largest changes were increases in investments of $4 billion and in net capital assets of $1.1 billion. Fee revenues increased $819.4 million and interest and investment income increased $1.4 billion from the previous year. Tuition and fee increases and enrollment gains as well as investment successes account for much of the change. Capital additions are an indication of long-range plans for various new construction projects.

### Texas Water Development Board Funds

The Texas Water Development Board funds net assets totaled $2.1 billion as of Aug. 31, 2007, an increase of $300.2 million from $1.8 billion as of Aug. 31, 2006. During fiscal 2007, federal revenues of $237.4 million and investment income of $191.5 million accounted for virtually all of the additions to the funds. The increase in net assets was primarily due to the close out of several underlying loans in clean water capitalization grants resulting from increased federal draws. Funds are primarily used to provide financial assistance to political subdivisions for water development, water quality enhancement and flood control projects.

### Texas Department of Transportation Turnpike Authority

Net assets for the Texas Department of Transportation Turnpike Authority totaled $805.5 million as of Aug. 31, 2007, an increase of $43.7 million from Aug. 31, 2006. The largest portion of the Turnpike Authority's total assets,

$2.5 billion or 77.5 percent consists of completed highway projects or those under construction. Capital contributions from the state highway fund were discontinued in March 2007 once existing funds were determined to be sufficient for completion of current projects.

## Fiduciary Funds

Fiduciary funds report $157 billion in net assets as of Aug. 31, 2007, an increase of $18 billion from $139 billion, in fiscal 2006.

### Pension and Other Employee Benefit Trust Funds

Total net assets for pension and other employee benefit trust funds were $137.3 billion, an increase of $13.8 billion from the $123.5 billion in fiscal 2006. The majority of plan assets are held as investments for the pension funds. The overall financial condition of the pension fund retirement plans improved during fiscal 2007 due to the increased member, state and employer contributions, and appreciation in investment assets. The return for investments for the state's two largest pension systems, the Teacher Retirement System of Texas and the Employees Retirement System of Texas, was 14.4 percent and 13.9 percent, respectively, compared to the previous year's return percents of 9.7 and 8.8.

### External Investment Trust Funds

The external investment trust funds reported total net assets of $16.5 billion in fiscal 2007, an increase of $3.8 billion from the $12.6 billion in fiscal 2006. The increase is due to additional investment contributions by participants, including 107 new clients in the Texas Government Investment Pool (TexPool) trust fund, and to higher interest income on larger investment asset balances.

### Private-Purpose Trust Funds

Total net assets for private-purpose trust funds were $3.3 billion in fiscal 2007, an increase of $385 million, or 13.3 percent from fiscal 2006. Increases to net assets were due to a combination of factors including higher rates of return on investments, an increase in interest rates on holdings, as well as increases to average monthly asset balances on which interest earnings were made.

# Budgetary Highlights

## Variances for the General Fund

The differences from original and final revenue budgets are due to both economic and legislative reasons. Actual results for tax revenues produced an additional $1.6 billion above the final budget number. As strength in the state economy continued, sales tax collections increased by 9.5 percent. Tax collections for oil and gas were higher than budgeted as prices grew beyond forecasts. Finally, a 142.4 percent increase in cigarette and tobacco taxes was attributable to a tax rate hike of $1.00 per pack of cigarettes.

Actual amounts exceed budgeted figures for both sales of goods and services revenues and for health and human expenditures. The variances of actual to budget were $1.3 billion and $680.7 million, respectively. Both were primarily attributable to large increases in intergovernmental receipts from urban and rural hospitals for the purpose of enhancing Medicaid reimbursements from federal matching funds. Increases in federal revenues for health care were offset by reductions in federal revenues for highway construction.

# Capital Assets and Debt Administration

## Capital Assets

As of Aug. 31, 2007, the state had $80.3 billion in net capital assets, of which $50.3 billion was infrastructure. This total represents an increase of $4.9 billion in net capital assets or 6.4 percent from fiscal 2006. The state's capital assets include land and land improvements, infrastructure, construction in progress, buildings and building improvements, facilities and other improvements, furniture and equipment, vehicles, boats and aircraft and other capital assets. Details of capital assets are shown in Note 2.

## Infrastructure Assets

The value of the state's infrastructure assets is included in the governmental activities column of the government-wide statements.

The state accounts for its system of roads and highways using the modified approach allowed by GASB Statement

## Capital Assets – Net of Depreciation

August 31, 2007 and 2006 (Amounts In Thousands)

| | Governmental Activities | | Business-Type Activities | | Total Primary Government | |
|---|---|---|---|---|---|---|
| | 2007 | 2006 | 2007 | 2006 | 2007 | 2006 |
| Land and Land Improvements | $ 7,278,244 | $ 6,799,132 | $ 1,274,455 | $ 1,145,692 | $ 8,552,699 | $ 7,944,824 |
| Infrastructure | 48,397,641 | 45,927,273 | 1,900,120 | 296,607 | 50,297,761 | 46,223,880 |
| Construction in Progress | 4,623,788 | 4,020,789 | 2,041,057 | 3,419,532 | 6,664,845 | 7,440,321 |
| Buildings and Building Improvements | 2,542,910 | 2,629,379 | 8,545,156 | 7,745,073 | 11,088,066 | 10,374,452 |
| Facilities and Other Improvements | 84,117 | 83,551 | 613,234 | 521,876 | 697,351 | 605,427 |
| Furniture and Equipment | 255,122 | 263,590 | 1,251,007 | 1,173,396 | 1,506,129 | 1,436,986 |
| Vehicles, Boats and Aircraft | 389,098 | 366,697 | 50,029 | 50,764 | 439,127 | 417,461 |
| Other Capital Assets | 231,806 | 227,601 | 807,603 | 761,001 | 1,039,409 | 988,602 |
| Total Capital Assets | $63,802,726 | $60,318,012 | $16,482,661 | $15,113,941 | $80,285,387 | $75,431,953 |

No. 34. The Texas Department of Transportation (TxDOT) has developed a system of management, the Texas Maintenance Assessment Program (TxMAP), which is designed to maintain the service delivery potential of the state's roads and highways to near perpetuity.

The state's policy is to maintain its interstate highways at a condition level of 80 percent and its non-interstate highways (farm-to-market and other road systems) at a condition level of 75 percent. The condition assessment results for fiscal 2007 reflect condition levels of 84.1 percent (83.4 percent in fiscal 2006) for the interstate system and 79.5 percent (78 percent for fiscal 2006) for the non-interstate system.

In fiscal 2007, the estimated maintenance expenditures for interstate highways were $438.5 million, compared to $471.9 million actual maintenance expenditures. The estimated versus actual maintenance expenditures for non-interstate highways were $1.7 billion and $1.9 billion, respectively.

Additional information on the state's road and highway infrastructure is presented in the financial section's required supplementary information other than MD&A.

## Debt Administration

The state of Texas issues both general obligation bonds and revenue bonds. Each series of revenue bonds is backed by the pledged revenue source and restricted funds specified in the bond resolution. Most revenue bonds are designed to be self-supporting from a primary revenue source related to the program financed.

The state's general obligation bond issues are rated Aa1 by Moody's Investors Service, AA by Standard & Poor's Corporation and AA+ by Fitch, as of August 2007. During fiscal 2007, Texas' state agencies and universities issued $6.2 billion in state bonds to finance new construction, housing, water conservation and treatment and other projects. General obligation debt accounted for $2.8 billion of state bonds issued in fiscal 2007. This debt, which can only be authorized by a constitutional amendment, carries the full faith and credit of the state. The remaining $3.6 billion is due to new issuances of revenue bonds, which are serviced by the revenue flows of individual entity projects. Bonds retired during the year were composed of $362.7 million in general obligation bonds and $838.6 million in revenue bonds. Also, $158.1 million in general obligation bonds and $1.8 billion in revenue bonds were refunded. The total outstanding general obligation debt of the state after new issuances, retirements and refundings as of Aug. 31, 2007, was $9.5 billion. This represents an increase of $2.3 billion or 32.1 percent from fiscal 2006. An additional $3.8 billion of general obligation bonds have been authorized but have not been issued. Total revenue bonds outstanding were $14.7 billion, which is an increase of $918.4 million or 6.7 percent from fiscal 2006. $2.2 billion of the net increase for general obligation bonds and $931.7 of the net increase for revenue bonds are to finance highway projects in the state. Note 5 shows the details on the state's long-term liabilities and Note 6 provides detail information on the state's bond indebtedness.

## Outstanding Bonded Debt

August 31, 2007 and 2006 (Amounts in Thousands)

| | Governmental Activities | | Business-Type Activities | | Total Primary Government | |
|---|---|---|---|---|---|---|
| | 2007 | 2006 | 2007 | 2006 | 2007 | 2006 |
| General Obligation Bonds Payable | $ 6,756,893 | $ 4,478,891 | $ 2,775,467 | $ 2,738,685 | $ 9,532,360 | $ 7,217,576 |
| Revenue Bonds Payable | 2,030,739 | 1,152,483 | 12,304,358 | 12,378,384 | 14,335,097 | 13,530,867 |
| Total Bonds Payable | $ 8,787,632 | $ 5,631,374 | $ 15,079,825 | $ 15,117,069 | $ 23,867,457 | $ 20,748,443 |

## Cash Management

Funds deposited in the state Treasury are pooled for investment purposes. The Treasury is authorized to invest in fully collateralized time deposits, obligations of the United States, obligations of various federal credit organizations, direct security repurchase agreements, reverse repurchase agreements, bankers' acceptances, commercial paper and contracts written by the Comptroller which are commonly known as covered call options.

During fiscal 2007, the average investment portfolio consisted of the following.

## Average Investment Portfolio*

For the Fiscal Year Ended August 31, 2007

| Investment Type | Percent of Total | Average Amount Invested (Amounts in Millions) | Average Interest Rate |
|---|---|---|---|
| NOW Accounts | 0.1 % | 26.6 | 1.06 % |
| Time Deposits | 0.1 | 15.0 | 3.77 |
| BidTX | 3.1 | 579.9 | 5.15 |
| Repurchase Agreements | 22.5 | 4,151.7 | 5.35 |
| U.S. Treasury and Agency Securities | 48.0 | 8,849.4 | 5.12 |
| U.S. Treasury (Lottery) | 3.2 | 586.4 | ** |
| Commercial Paper | 21.7 | 4,007.4 | 5.36 |
| Mutual Funds | 2.4 | 438.4 | 5.18 |
| Subtotal | 101.1 | 18,654.8 | |
| Reverse Repurchase Agreements | (1.1) | (203.6) | 5.10 |
| Total | 100.0 % | 18,451.2 | 5.22 |

* The above numbers include all funds included in the state Treasury.

** The yield for the lottery is not included in the average yield for the state since the investments are long-term and are held for lottery prize winners.

## Economic Condition and Outlook

Texas added more jobs than any other state in 2007, even adding more jobs than the combined job growth in the next two largest job gainers - Florida and California. Completing its fourth consecutive year of employment growth, Texas nonfarm employment advanced by 2 percent, or 204,400 jobs, from November 2006 to November 2007. Although growing almost twice as fast as the national average, Texas job growth slowed during the year, dropping nearly a percentage point from a 2.9 percent growth rate during the previous year. The state's economy was largely insulated from the nation's housing-induced slowdown, as average housing prices in Texas continued to increase. Higher oil and gas prices, although hurting consumers and most service-based industries, benefited the natural resources and mining sector, which is about five times as concentrated in Texas as the national average. The state's unemployment rate dropped to its best level in several years, standing at 4.2 percent in November 2007. During the year, Texas' unemployment rate fell below the nation's unemployment rate, standing a half percentage point lower than the national average in November.

Although comparatively stronger than the national economy, Texas' real gross domestic product growth slowed in 2007, advancing by an estimated 3.3 percent, when adjusted for inflation. Nominal personal income increased by an estimated 7.9 percent. The state's total personal income still exceeded the growth in population and inflation, resulting in real per capita personal income growth of 3.6 percent during the year.

The state revenue outlook continues to improve but there are many factors that preclude a forecasting of the same robust revenue growth seen in recent years. Fiscal 2007 finished strong with an ending balance of $8.8 billion in general revenue-related funds after the required constitutional transfers to the economic stabilization fund. In November 2007, Comptroller Combs released the 2008-09 Certification Revenue Estimate and the state is expected to have sufficient revenue to support $83.1 billion in general purpose spending for the biennium. Because of uncertainty in the U.S. and Texas economies, the Comptroller is forecasting slower revenue growth over the next two years. Sales tax, the state's largest source of the tax revenue, is only expected to grow at 3.1 percent in fiscal 2008 and 2.2 percent for fiscal 2009. Underpinning the lower rate of growth in the revenue estimate, Texas economic growth for the biennium is projected to decelerate to an average annual rate of 3 percent - down from the previous period's 3.7 percent average annual growth. The state economy, though reasonably healthy, is entering into a period of uncertainty due to liquidity issues in credit markets and an ongoing correction in the housing market. While corrective measures have been implemented at the national level, the current situation requires extreme caution and prudence.

## Contacting the State's Financial Management

This financial report is designed to provide the state's citizens, taxpayers, customers, investors and creditors with a general overview of the state's finances and to demonstrate the state's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the Financial Reporting section of the Texas Comptroller of Public Accounts at 111 E. 17th Street, Austin, Texas 78774.

# Basic Financial Statements

STATE OF TEXAS

# Statement of Net Assets

August 31, 2007 (Amounts in Thousands)

| | Primary Government | | | |
|---|---|---|---|---|
| | Governmental Activities | Business-Type Activities | Total | Component Units |
| **ASSETS** | | | | |
| Current Assets: | | | | |
| Cash and Cash Equivalents | $ 16,817,384 | $ 3,880,811 | $ 20,698,195 | $ 145,656 |
| Short-Term Investments | 781,601 | 769,994 | 1,551,595 | 844,964 |
| Securities Lending Collateral | 5,240,387 | 2,196,135 | 7,436,522 | |
| Receivables: | | | | |
| Taxes (Note 24) | 2,494,362 | | 2,494,362 | |
| Federal | 2,395,309 | 368,181 | 2,763,490 | 21,985 |
| Other Intergovernmental | 867,924 | 48,323 | 916,247 | 1,325 |
| Accounts | 609,247 | 715,100 | 1,324,347 | 10,281 |
| Interest and Dividends | 191,072 | 177,932 | 369,004 | 6,563 |
| Gifts | | 103,543 | 103,543 | |
| Investment Trades | 7,672 | 965,789 | 973,461 | |
| Other | 72,018 | 1,164,131 | 1,236,149 | 325 |
| From Fiduciary Funds | 30,587 | | 30,587 | |
| Due From Primary Government (Note 12) | | | | 348 |
| Due From Component Units (Note 12) | 431 | 9 | 440 | |
| Inventories | 253,929 | 125,179 | 379,108 | 848 |
| Prepaid Items | 216 | 92,944 | 93,160 | 1,377 |
| Loans and Contracts | 105,883 | 279,957 | 385,840 | 10,598 |
| Other Current Assets | 31 | 215,703 | 215,734 | 4,134 |
| Restricted: | | | | |
| Cash and Cash Equivalents | 302,886 | 3,601,819 | 3,904,705 | 2,581 |
| Short-Term Investments | | 741,680 | 741,680 | 80,776 |
| Loans and Contracts | 63,593 | 83,316 | 146,909 | 80 |
| Total Current Assets | 30,234,532 | 15,530,546 | 45,765,078 | 1,131,841 |
| Noncurrent Assets: | | | | |
| Internal Balances (Note 12) | 15,758 | (15,758) | | |
| Loans and Contracts | 494,282 | 3,114,630 | 3,608,912 | 50,866 |
| Investments | 27,539,232 | 6,450,558 | 33,989,790 | 15,581 |
| Receivables: | | | | |
| Taxes (Note 24) | 462,764 | | 462,764 | |
| Federal | 11,138 | | 11,138 | |
| Gifts | | 201,201 | 201,201 | |
| Other | 42,763 | | 42,763 | 3,958 |
| Restricted: | | | | |
| Cash and Cash Equivalents | | 97,307 | 97,307 | 171 |
| Short-Term Investments | | 23,704 | 23,704 | |
| Investments | | 28,254,853 | 28,254,853 | 170,305 |
| Receivables | 264 | 170,216 | 170,480 | |
| Loans and Contracts | 692,133 | 3,369,734 | 4,061,867 | 3,234 |
| Other | 87,515 | 8,707 | 96,222 | |
| Assets Held in Trust | | 1,615 | 1,615 | |
| Net Pension Asset (Note 9) | 7,270 | | 7,270 | |
| Other Noncurrent Assets | 21,845 | 94,775 | 116,620 | 7,262 |
| Capital Assets: (Note 2) | | | | |
| Nondepreciable | 53,441,285 | 4,876,094 | 58,317,379 | 4,120 |
| Depreciable | 23,618,790 | 22,257,731 | 45,876,521 | 95,328 |
| Accumulated Depreciation | (13,257,349) | (10,651,164) | (23,908,513) | (46,856) |
| Total Noncurrent Assets | 93,177,690 | 58,254,203 | 151,431,893 | 303,969 |
| Total Assets | 123,412,222 | 73,784,749 | 197,196,971 | 1,435,810 |

*Concluded on the following page*

STATE OF TEXAS

# Statement of Net Assets (concluded)

August 31, 2007 (Amounts in Thousands)

| | Primary Government | | | |
|---|---|---|---|---|
| | Governmental Activities | Business-Type Activities | Total | Component Units |
| **LIABILITIES** | | | | |
| Current Liabilities: | | | | |
| Payables: | | | | |
| Accounts | $ 4,564,460 | $ 1,497,513 | $ 6,061,973 | $ 15,433 |
| Payroll | 566,138 | 256,227 | 822,365 | 29 |
| Other Intergovernmental | 1,669,161 | 12,212 | 1,681,373 | |
| Federal | 150,448 | 49,368 | 199,816 | 28,755 |
| Investment Trades | 8,692 | 2,001,348 | 2,010,040 | |
| Interest | 285,180 | 66,693 | 351,873 | 2,557 |
| To Fiduciary Funds | 98,802 | | 98,802 | |
| Internal Balances (Note 12) | 467,755 | (467,755) | | |
| Due To Primary Government (Note 12) | | | | 440 |
| Due To Component Units (Note 12) | 348 | | 348 | |
| Deferred Revenue | 821,541 | 2,075,981 | 2,897,522 | 38,434 |
| Obligations/Reverse Repurchase Agreement | 106,022 | | 106,022 | |
| Obligations/Securities Lending | 5,240,387 | 2,196,134 | 7,436,521 | |
| Short-Term Debt (Note 4) | 158,000 | | 158,000 | |
| Claims and Judgments (Note 5) | 70,379 | 94,801 | 165,180 | |
| Capital Lease Obligations (Note 5, 7) | 1,425 | 2,554 | 3,979 | 120 |
| Employees' Compensable Leave (Note 5) | 425,016 | 283,023 | 708,039 | 3,202 |
| Notes and Loans Payable (Note 5) | 21,702 | 1,666,201 | 1,687,903 | 42,193 |
| General Obligation Bonds Payable (Note 5, 6) | 300,083 | 110,226 | 410,309 | |
| Revenue Bonds Payable (Note 5, 6) | 111,655 | 582,702 | 694,357 | 6,914 |
| Liabilities Payable From Restricted Assets (Note 5) | | 516,563 | 516,563 | |
| Funds Held for Others | | 101,982 | 101,982 | |
| Other Current Liabilities | 560,022 | 476,080 | 1,036,102 | 27,585 |
| Total Current Liabilities | 15,627,216 | 11,521,853 | 27,149,069 | 165,662 |
| Noncurrent Liabilities: | | | | |
| Claims and Judgments (Note 5) | 136,589 | 69,039 | 205,628 | |
| Capital Lease Obligations (Note 5, 7) | 9,135 | 11,025 | 20,160 | 30 |
| Employees' Compensable Leave (Note 5) | 297,514 | 297,160 | 594,674 | 1,550 |
| Notes and Loans Payable (Note 5) | 193,998 | 363,121 | 557,119 | 125,825 |
| General Obligation Bonds Payable (Note 5, 6) | 6,456,810 | 2,665,241 | 9,122,051 | |
| Revenue Bonds Payable (Note 5, 6) | 1,919,084 | 11,721,656 | 13,640,740 | 369,408 |
| Liabilities Payable From Restricted Assets (Note 5) | | 3,152,001 | 3,152,001 | 229,091 |
| Assets Held for Others | | 766,494 | 766,494 | |
| Net Pension Obligation (Note 9) | 421,772 | | 421,772 | |
| Other Noncurrent Liabilities | | 318,551 | 318,551 | 27,697 |
| Total Noncurrent Liabilities | 9,434,902 | 19,364,288 | 28,799,190 | 753,601 |
| Total Liabilities | 25,062,118 | 30,886,141 | 55,948,259 | 919,263 |
| **NET ASSETS** | | | | |
| Invested in Capital Assets, Net of Related Debt | 56,438,132 | 7,342,429 | 63,780,561 | 35,205 |
| Restricted for: | | | | |
| Education | 777,385 | 2,147,076 | 2,924,461 | 77,272 |
| Highway Construction | 145,701 | | 145,701 | |
| Debt Service | 145,165 | 225,415 | 370,580 | |
| Capital Projects | 96,183 | 113,760 | 209,943 | |
| Veterans Land Board Housing Programs | | 643,649 | 643,649 | |
| Unemployment Trust Funds | | 2,240,512 | 2,240,512 | |
| Funds Held as Permanent Investments: | | | | |
| Nonexpendable | 9,701,355 | 10,597,266 | 20,298,621 | |
| Expendable | 17,072,530 | 9,830,075 | 26,902,605 | |
| Other | 1,408,293 | 17,315 | 1,425,608 | |
| Unrestricted | 12,565,360 | 9,741,111 | 22,306,471 | 404,070 |
| Total Net Assets | $ 98,350,104 | $ 42,898,608 | $ 141,248,712 | $ 516,547 |

The accompanying notes to the financial statements are an integral part of this statement.

STATE OF TEXAS

# Statement of Activities

For the Fiscal Year Ended August 31, 2007 (Amounts in Thousands)

| Functions/Programs | Expenses | Program Revenues: Charges for Services | Program Revenues: Operating Grants and Contributions | Program Revenues: Capital Grants and Contributions |
|---|---|---|---|---|
| **PRIMARY GOVERNMENT** | | | | |
| Governmental Activities: | | | | |
| General Government | $ 2,555,309 | $ 1,141,278 | $ 666,863 | $ 2,219 |
| Education | 21,313,526 | 584,971 | 8,059,167 | |
| Employee Benefits | 61,171 | 116 | | |
| Teacher Retirement Benefits | 2,017,000 | 26,661 | | |
| Health and Human Services | 30,886,484 | 2,059,789 | 20,544,817 | 5 |
| Public Safety and Corrections | 5,035,761 | 823,602 | 424,845 | |
| Transportation | 4,252,129 | 1,530,669 | 104,089 | 1,821,171 |
| Natural Resources and Recreation | 1,217,201 | 714,687 | 191,819 | 291 |
| Regulatory Services | 314,266 | 604,199 | 3,809 | |
| Indirect Interest on Long-Term Debt | 229,354 | | | |
| Total Governmental Activities | 67,882,201 | 7,485,972 | 29,995,409 | 1,823,686 |
| Business-Type Activities: | | | | |
| General Government | 186,628 | 42,713 | 135,372 | |
| Education | 17,165,602 | 8,268,639 | 8,242,095 | 195,574 |
| Teacher Retirement Benefits | 909,845 | 939,879 | 46 | |
| Health and Human Services | 1,204,609 | 1,665,242 | 67,862 | |
| Public Safety and Corrections | 75,305 | 82,779 | | |
| Transportation | 125,910 | 16,757 | | 2,157 |
| Natural Resources and Recreation | 283,653 | 41,034 | 556,036 | |
| Lottery | 2,691,210 | 3,774,948 | 16 | |
| Total Business-Type Activities | 22,642,762 | 14,831,991 | 9,001,427 | 197,731 |
| Total Primary Government | $90,524,963 | $22,317,963 | $38,996,836 | $ 2,021,417 |
| **COMPONENT UNITS** | | | | |
| Component Units | $ 502,928 | $ 364,894 | $ 232,628 | $ |
| Total Component Units | $ 502,928 | $ 364,894 | $ 232,628 | $ 0 |

| | |
|---|---|
| General Revenues | |
| Taxes: | |
| Sales and Use | |
| Motor Vehicle and Manufactured Housing | |
| Motor Fuels | |
| Franchise | |
| Oil and Natural Gas Production | |
| Insurance Occupation | |
| Cigarette and Tobacco | |
| Other | |
| Unrestricted Investment Earnings | |
| Settlement of Claims | |
| Gain on Sale of Capital Assets | |
| Other General Revenues | |
| Capital Contributions | |
| Contributions to Permanent and Term Endowments | |
| Special Items (Note 23) | |
| Transfers - Internal Activities (Note 12) | |
| Total General Revenues, Contributions and Transfers | |
| Change in Net Assets | |
| Net Assets, September 1, 2006 | |
| Restatements (Note 14) | |
| Net Assets, September 1, 2006, as Restated | |
| Net Assets, August 31, 2007 | |

The accompanying notes to the financial statements are an integral part of this statement.

| Net (Expense) Revenue and Changes in Net Assets | | | |
|---|---|---|---|
| Primary Government | | | |
| Governmental Activities | Business-Type Activities | Total | Component Units |
| $ (744,949) | $ | $ (744,949) | $ |
| (12,669,388) | | (12,669,388) | |
| (61,055) | | (61,055) | |
| (1,990,339) | | (1,990,339) | |
| (8,281,873) | | (8,281,873) | |
| (3,787,314) | | (3,787,314) | |
| (796,200) | | (796,200) | |
| (310,404) | | (310,404) | |
| 293,742 | | 293,742 | |
| (229,354) | | (229,354) | |
| (28,577,134) | 0 | (28,577,134) | 0 |
| | (8,543) | (8,543) | |
| | (459,294) | (459,294) | |
| | 30,080 | 30,080 | |
| | 528,495 | 528,495 | |
| | 7,474 | 7,474 | |
| | (106,996) | (106,996) | |
| | 313,417 | 313,417 | |
| | 1,083,754 | 1,083,754 | |
| 0 | 1,388,387 | 1,388,387 | 0 |
| (28,577,134) | 1,388,387 | (27,188,747) | 0 |
| | | | 94,594 |
| 0 | 0 | 0 | 94,594 |
| 20,230,164 | | 20,230,164 | |
| 3,338,498 | | 3,338,498 | |
| 3,149,043 | | 3,149,043 | |
| 3,273,050 | | 3,273,050 | |
| 2,692,032 | | 2,692,032 | |
| 1,368,340 | | 1,368,340 | |
| 1,325,712 | | 1,325,712 | |
| 1,694,750 | | 1,694,750 | |
| 941,938 | 245,977 | 1,187,915 | 14,369 |
| 538,836 | 283 | 539,119 | |
| 3,942 | 13,363 | 17,305 | |
| 1,627,330 | 266,722 | 1,894,052 | 5,983 |
| 309 | 1,364 | 1,673 | |
| | 184,193 | 184,193 | |
| | (318,813) | (318,813) | |
| (3,383,910) | 3,383,910 | | |
| 36,800,034 | 3,776,999 | 40,577,033 | 20,352 |
| 8,222,900 | 5,165,386 | 13,388,286 | 114,946 |
| 90,162,159 | 37,739,272 | 127,901,431 | 401,601 |
| (34,955) | (6,050) | (41,005) | |
| 90,127,204 | 37,733,222 | 127,860,426 | 401,601 |
| $98,350,104 | $42,898,608 | $141,248,712 | $ 516,547 |

STATE OF TEXAS

# Balance Sheet – Governmental Funds

August 31, 2007 (Amounts in Thousands)

| | General | State Highway Fund | Permanent School Fund | Nonmajor Funds | Totals |
|---|---|---|---|---|---|
| **ASSETS** | | | | | |
| Cash and Cash Equivalents | $12,892,211 | $ 756,203 | $ 523,054 | $ 2,614,250 | $16,785,718 |
| Short-Term Investments | 108,363 | | 165,018 | 77,359 | 350,740 |
| Securities Lending Collateral | | | 5,121,931 | 41,065 | 5,162,996 |
| Receivables: | | | | | |
| Accounts | 406,607 | 18,708 | 81,807 | 4,267 | 511,389 |
| Taxes (Note 24) | 2,957,126 | | | | 2,957,126 |
| Federal | 2,155,739 | 250,259 | | 449 | 2,406,447 |
| Investment Trades | | | 6,213 | 1,392 | 7,605 |
| Other Intergovernmental | 691,538 | 176,386 | | | 867,924 |
| Interest and Dividends | 50,003 | 10,310 | 113,140 | 17,384 | 190,837 |
| Other (Note 1) | 114,781 | | | | 114,781 |
| Due From Other Funds (Note 12) | 198,021 | 329,192 | 10,253 | 70,922 | 608,388 |
| Due From Component Units (Note 12) | 431 | | | | 431 |
| Interfund Receivable (Note 12) | 17,845 | | | 60 | 17,905 |
| Inventories | 161,140 | 92,240 | | 549 | 253,929 |
| Prepaid Items | 198 | | 14 | 4 | 216 |
| Investments | | | 25,993,304 | 1,235,544 | 27,228,848 |
| Loans and Contracts | 146,676 | 233,808 | 1,672 | 218,009 | 600,165 |
| Other Assets | | 13,842 | | 8,034 | 21,876 |
| Restricted: | | | | | |
| Cash and Cash Equivalents | 6,676 | | | 296,210 | 302,886 |
| Receivables | 264 | | | | 264 |
| Loans and Contracts | 114,327 | | | 641,399 | 755,726 |
| Other Assets | 82 | | | 87,433 | 87,515 |
| Total Assets | $20,022,028 | $ 1,880,948 | $32,016,406 | $ 5,314,330 | $59,233,712 |
| **LIABILITIES AND FUND BALANCES** | | | | | |
| Liabilities: | | | | | |
| Payables: | | | | | |
| Accounts | $ 3,004,894 | $ 941,228 | $ 16,179 | $ 172,883 | $ 4,135,184 |
| Investment Trades | | | 6,071 | 2,621 | 8,692 |
| Other Intergovernmental | 1,669,161 | | | | 1,669,161 |
| Payroll | 458,858 | 98,635 | 1,477 | 7,168 | 566,138 |
| Federal | 150,430 | | | 18 | 150,448 |
| Interest | 68,325 | 29,403 | 21,444 | 62,640 | 181,812 |
| Due To Other Funds (Note 12) | 777,894 | 8,430 | 310 | 286,391 | 1,073,025 |
| Due To Component Units (Note 12) | 348 | | | | 348 |
| Interfund Payable (Note 12) | 60 | | | 1,918 | 1,978 |
| Deferred Revenues | 2,695,832 | 330,133 | 75,109 | 791 | 3,101,865 |
| Obligations/Reverse Repurchase Agreements | 106,022 | | | | 106,022 |
| Obligations/Securities Lending | | | 5,121,931 | 41,065 | 5,162,996 |
| Other Liabilities | 253,883 | 302,921 | | 3,218 | 560,022 |
| Short-Term Debt (Note 4) | | 158,000 | | | 158,000 |
| Total Liabilities | 9,185,707 | 1,868,750 | 5,242,521 | 578,713 | 16,875,691 |
| Fund Balances/(Deficits): | | | | | |
| Reserved (Note 13) | 2,138,344 | 510,842 | 26,773,885 | 1,769,101 | 31,192,172 |
| Unreserved (Note 13): | | | | | |
| General | 8,697,977 | | | | 8,697,977 |
| Special Revenue | | (498,644) | | 2,345,960 | 1,847,316 |
| Capital Projects | | | | (11,478) | (11,478) |
| Permanent | | | | 632,034 | 632,034 |
| Total Fund Balances | 10,836,321 | 12,198 | 26,773,885 | 4,735,617 | 42,358,021 |
| Total Liabilities and Fund Balances | $20,022,028 | $ 1,880,948 | $32,016,406 | $ 5,314,330 | $59,233,712 |

The accompanying notes to the financial statements are an integral part of this statement.

# Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Assets

August 31, 2007 (Amounts in Thousands)

| | | |
|---|---|---|
| **Total Fund Balance – Governmental Funds** | | $ 42,358,021 |
| Amounts reported for governmental activities in the statement of net assets are different because: | | |
| Capital assets less accumulated depreciation are included in the statement of net assets (Note 2): | | |
| Capital Assets - Nondepreciable | $ 53,441,285 | |
| Capital Assets - Depreciable | 23,618,790 | |
| Accumulated Depreciation | (13,257,349) | |
| | | 63,802,726 |
| Certain pension funds have been funded in excess of the annual required contributions, creating a year-end asset. The asset is not a current available resource and is not reported in the funds. (Note 9) | | 7,270 |
| Some of the state's revenues will be collected after year-end but are not available soon enough to pay current year's expenditures and therefore, are deferred in the funds. | | 2,280,704 |
| Long-term liabilities applicable to the state's governmental activities are not due and payable in the current period and accordingly are not reported in the funds. However these liabilities are included in the statement of net assets. (Note 5 and Note 9) | | |
| Claims and Judgments | (206,968) | |
| Capital Lease Obligations | (10,560) | |
| Employees' Compensable Leave | (722,530) | |
| Notes and Loans Payable | (215,700) | |
| General Obligation Bonds Payable | (6,756,893) | |
| Revenue Bonds Payable | (2,030,739) | |
| Net Pension Obligation | (421,772) | |
| | | (10,365,162) * |
| * current portion = $930,260 and noncurrent portion = $9,434,902 | | |
| Interest payable applicable to the state's governmental activities are not due and payable in the current period and accordingly are not reported in the funds. However these liabilities are included in the statement of net assets. | | (103,368) |
| The internal service fund is used by management to charge the costs of employees life, accident and health insurance benefits fund to individual funds. Since governmental activities are the predominant activities of internal service funds, the assets and liabilities of the internal service funds are included in governmental activities in the statement of net assets. | | 369,913 |
| **Net Assets of Governmental Activities** | | $ 98,350,104 |

STATE OF TEXAS

# Statement of Revenues, Expenditures and Changes in Fund Balances – Governmental Funds

For the Fiscal Year Ended August 31, 2007 (Amounts in Thousands)

| | General | State Highway Fund | Permanent School Fund | Nonmajor Funds | Totals |
|---|---|---|---|---|---|
| **REVENUES** | | | | | |
| Taxes | $35,908,134 | $ 36,827 | $ | $ 724,771 | $36,669,732 |
| Federal | 24,978,688 | 1,973,326 | | 15,130 | 26,967,144 |
| Licenses, Fees and Permits | 2,810,373 | 1,079,478 | | 433,864 | 4,323,715 |
| Interest and Other Investment Income | 628,655 | 44,342 | 3,558,602 | 342,169 | 4,573,768 |
| Land Income | 17,903 | 4,011 | 399,694 | 184 | 421,792 |
| Settlement of Claims | 538,056 | 220 | 535 | | 538,811 |
| Sales of Goods and Services | 2,283,386 | 249,636 | 154,186 | 9,814 | 2,697,022 |
| Other | 2,643,474 | 20,518 | 26 | 66,393 | 2,730,411 |
| Total Revenues | 69,808,669 | 3,408,358 | 4,113,043 | 1,592,325 | 78,922,395 |
| **EXPENDITURES** | | | | | |
| Current: | | | | | |
| General Government | 2,191,371 | 11,789 | | 211,789 | 2,414,949 |
| Education | 19,069,085 | 50,000 | 406,871 | 1,790,806 | 21,316,762 |
| Employee Benefits | 1,249 | | | 13,200 | 14,449 |
| Teacher Retirement Benefits | | | | 24 | 24 |
| Health and Human Services | 30,802,518 | 10,000 | | 42,494 | 30,855,012 |
| Public Safety and Corrections | 4,250,161 | 565,533 | | 80,874 | 4,896,568 |
| Transportation | 9,246 | 3,673,637 | | 19,464 | 3,702,347 |
| Natural Resources and Recreation | 1,117,258 | | | 55,144 | 1,172,402 |
| Regulatory Services | 289,050 | | | 28,026 | 317,076 |
| Capital Outlay | 99,453 | 4,192,563 | 173 | 75,711 | 4,367,900 |
| Debt Service: | | | | | |
| Principal | 3,936 | 20,809 | 34 | 412,043 | 436,822 |
| Interest | 752 | 65,490 | | 303,757 | 369,999 |
| Other Financing Fees | 1,592 | 884 | | 11,109 | 13,585 |
| Total Expenditures | 57,835,671 | 8,590,705 | 407,078 | 3,044,441 | 69,877,895 |
| Excess (Deficiency) of Revenues Over (Under) Expenditures | 11,972,998 | (5,182,347) | 3,705,965 | (1,452,116) | 9,044,500 |
| **OTHER FINANCING SOURCES (USES)** | | | | | |
| Transfer In (Note 12) | 1,425,527 | 4,081,160 | | 2,258,493 | 7,765,180 |
| Transfer Out (Note 12) | (9,969,934) | (151,772) | (843,137) | (1,922,551) | (12,887,394) |
| Bonds and Notes Issued | 49,595 | 952,551 | | 2,469,239 | 3,471,385 |
| Bonds Issued for Refunding | | | | 249,172 | 249,172 |
| Premiums (Discounts) on Bonds Issued | (278) | 51,492 | | 74,721 | 125,935 |
| Payment to Escrow for Refunding | | | | (263,157) | (263,157) |
| Sale of Capital Assets | 24,671 | 4,451 | | | 29,122 |
| Insurance Recoveries | 1,120 | 1,001 | | | 2,121 |
| Total Other Financing Sources (Uses) | (8,469,299) | 4,938,883 | (843,137) | 2,865,917 | (1,507,636) |
| Net Change in Fund Balances | 3,503,699 | (243,464) | 2,862,828 | 1,413,801 | 7,536,864 |
| Fund Balances, September 1, 2006 | 7,320,890 | 255,662 | 23,912,384 | 3,322,798 | 34,811,734 |
| Restatements (Note 14) | 11,732 | | (1,327) | (982) | 9,423 |
| Fund Balances, September 1, 2006, as Restated | 7,332,622 | 255,662 | 23,911,057 | 3,321,816 | 34,821,157 |
| Fund Balances, August 31, 2007 | $10,836,321 | $ 12,198 | $26,773,885 | $ 4,735,617 | $42,358,021 |

The accompanying notes to the financial statements are an integral part of this statement.

# Reconciliation of the Governmental Funds Statement of Revenues, Expenditures and Changes in Fund Balances to the Statement of Activities

For the Fiscal Year Ended August 31, 2007 (Amounts in Thousands)

| | | |
|---|---|---|
| **Net Change in Fund Balances** | | $ 7,536,864 |
| Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. The amount by which capital outlay exceeds depreciation in the current period is: | | |
| Capital Outlay | $ 4,367,900 | |
| Depreciation Expense (Note 2) | (815,835) | |
| | | 3,552,065 |
| The effect of various miscellaneous transactions involving capital assets (i.e., sales and trade-ins) is to decrease net assets. | | (25,180) |
| Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds. | | (904,979) |
| The internal service fund is used by management to charge the costs of the employees life, accident and health insurance benefits fund to individual funds. The adjustments for internal service fund "close" the fund by allocating these amounts to participating governmental activities. | | 128,435 |
| Bond proceeds provide current financial resources to governmental funds, but increase long-term liabilities in the statement of net assets. Repayment of long term debt consumes current financial resources and is an expenditure in the governmental funds, but reduces long-term liabilities in the statement of net assets. | | |
| Bonds and Notes Issued | (3,720,557) | |
| Premiums (Discounts) on Bonds Proceeds | (125,935) | |
| Repayment of Bond and Capital Lease Principal | 699,979 | |
| | | (3,146,513) |
| Some expenses reported in the statement of activities do not require the use of current financial resources and therefore, are not reported as expenditures in governmental funds. | | 1,082,007 |
| Resource flows between fiduciary funds and governmental funds are converted to revenues or expenses on the statement of activities. Transfers of capital assets have not been reported in the governmental funds. | | |
| Capital Asset Transfers | 201 | |
| Change in Transfers | 1,738,103 | |
| Increase in Revenues | 27,550 | |
| Increase in Expenses | (1,765,653) | |
| | | 201 |
| **Change in Net Assets of Governmental Activities** | | $ 8,222,900 |

STATE OF TEXAS

# Statement of Net Assets
# Proprietary Funds

August 31, 2007 (Amounts in Thousands)

| | Business-Type Activities – Enterprise Funds | | | | | |
|---|---|---|---|---|---|---|
| | Colleges and Universities | Texas Water Development Board Funds | Texas Department of Transportation Turnpike Authority | Nonmajor Enterprise Funds | Totals | Governmental Activities – Internal Service Fund* |
| **ASSETS** | | | | | | |
| Current Assets: | | | | | | |
| Cash and Cash Equivalents | $ 2,964,528 | $ 251,060 | $ | $ 665,223 | $ 3,880,811 | $ 31,666 |
| Short-Term Investments | 268,408 | 501,586 | | | 769,994 | 430,861 |
| Securities Lending Collateral | 1,853,075 | | | 343,060 | 2,196,135 | 77,391 |
| Restricted: | | | | | | |
| Cash and Cash Equivalents | 545,722 | | 461,443 | 2,594,654 | 3,601,819 | |
| Short-Term Investments | 214,039 | | 93,716 | 433,925 | 741,680 | |
| Loans and Contracts | 17 | | | 83,299 | 83,316 | |
| Receivables: | | | | | | |
| Federal | 360,075 | 2,249 | | 5,857 | 368,181 | |
| Other Intergovernmental | 48,323 | | | | 48,323 | |
| Accounts | 370,545 | 712 | 2,401 | 341,442 | 715,100 | 97,858 |
| Interest and Dividends | 78,994 | 33,382 | 3,696 | 61,860 | 177,932 | 235 |
| Gifts | 103,543 | | | | 103,543 | |
| Investment Trades | 819,760 | | | 146,029 | 965,789 | 67 |
| Other | 1,161,405 | | | 2,726 | 1,164,131 | |
| Due From Other Funds (Note 12) | 431,164 | | 3,524 | 63,557 | 498,245 | 1,750 |
| Due From Component Units (Note 12) | 9 | | | | 9 | |
| Interfund Receivable (Note 12) | 23,340 | | | | 23,340 | |
| Inventories | 110,690 | | | 14,489 | 125,179 | |
| Prepaid Items | 86,599 | | | 6,345 | 92,944 | |
| Loans and Contracts | 97,864 | 115,847 | | 66,246 | 279,957 | |
| Other Current Assets | 215,490 | | | 213 | 215,703 | |
| Total Current Assets | 9,753,590 | 904,836 | 564,780 | 4,828,925 | 16,052,131 | 639,828 |
| Noncurrent Assets: | | | | | | |
| Restricted: | | | | | | |
| Cash and Cash Equivalents | 91,715 | | 127 | 5,465 | 97,307 | |
| Short-Term Investments | 23,704 | | | | 23,704 | |
| Investments | 23,715,059 | | 120,977 | 4,418,817 | 28,254,853 | |
| Receivables | 5,679 | | | 164,537 | 170,216 | |
| Loans and Contracts | 117,512 | | | 3,252,222 | 3,369,734 | |
| Other | 6,595 | | | 2,112 | 8,707 | |
| Loans and Contracts | 32,632 | 3,052,817 | | 29,181 | 3,114,630 | |
| Investments | 6,450,558 | | | | 6,450,558 | 310,384 |
| Interfund Receivable (Note 12) | 382,630 | | | | 382,630 | |
| Gifts Receivable | 201,201 | | | | 201,201 | |
| Capital Assets: (Note 2) | | | | | | |
| Nondepreciable | 2,712,512 | | 2,159,390 | 4,192 | 4,876,094 | |
| Depreciable | 21,788,386 | | 371,871 | 97,474 | 22,257,731 | |
| Accumulated Depreciation | (10,612,394) | | (8,208) | (30,562) | (10,651,164) | |
| Assets Held in Trust | 362 | | | 1,253 | 1,615 | |
| Other Noncurrent Assets | 33,935 | 626 | 47,689 | 12,525 | 94,775 | |
| Total Noncurrent Assets | 44,950,086 | 3,053,443 | 2,691,846 | 7,957,216 | 58,652,591 | 310,384 |
| Total Assets | 54,703,676 | 3,958,279 | 3,256,626 | 12,786,141 | 74,704,722 | 950,212 |

*Concluded on the following page*

STATE OF TEXAS

# Statement of Net Assets
# Proprietary Funds (concluded)

August 31, 2007 (Amounts in Thousands)

| | Business-Type Activities – Enterprise Funds | | | | | |
|---|---|---|---|---|---|---|
| | Colleges and Universities | Texas Water Development Board Funds | Texas Department of Transportation Turnpike Authority | Nonmajor Enterprise Funds | Totals | Governmental Activities – Internal Service Fund* |
| **LIABILITIES** | | | | | | |
| Current Liabilities: | | | | | | |
| Payables: | | | | | | |
| Accounts | $ 1,254,193 | $ 216 | $ 38,727 | $ 204,377 | $ 1,497,513 | $ 429,276 |
| Payroll | 252,595 | | | 3,632 | 256,227 | |
| Other Intergovernmental | 12,212 | | | | 12,212 | |
| Federal | 49,368 | | | | 49,368 | |
| Investment Trades | 1,855,132 | | | 146,216 | 2,001,348 | |
| Interest | 2,074 | 10,921 | | 53,698 | 66,693 | |
| Due To Other Funds (Note 12) | 10,040 | 2,297 | | 17,984 | 30,321 | 73,252 |
| Interfund Payable (Note 12) | 23,340 | | | 169 | 23,509 | |
| Deferred Revenue | 1,912,239 | 38,022 | 40,838 | 84,882 | 2,075,981 | 380 |
| Obligations/Securities Lending | 1,853,074 | | | 343,060 | 2,196,134 | 77,391 |
| Claims and Judgments (Note 5) | 94,759 | | | 42 | 94,801 | |
| Capital Lease Obligations (Note 5, 7) | 2,435 | | | 119 | 2,554 | |
| Employees' Compensable Leave (Note 5) | 279,737 | | | 3,286 | 283,023 | |
| Notes and Loans Payable (Note 5) | 871,558 | | 786,411 | 8,232 | 1,666,201 | |
| General Obligation Bonds Payable (Note 5, 6) | 6,705 | 42,290 | | 61,231 | 110,226 | |
| Revenue Bonds Payable (Note 5, 6) | 354,261 | 36,480 | | 191,961 | 582,702 | |
| Liabilities Payable From Restricted Assets (Note 5) | | | 13,100 | 503,463 | 516,563 | |
| Funds Held for Others | 101,982 | | | | 101,982 | |
| Other Current Liabilities | 442,483 | | 12,559 | 21,038 | 476,080 | |
| Total Current Liabilities | 9,378,187 | 130,226 | 891,635 | 1,643,390 | 12,043,438 | 580,299 |
| Noncurrent Liabilities: | | | | | | |
| Interfund Payable (Note 12) | 398,388 | | | | 398,388 | |
| Claims and Judgments (Note 5) | 69,039 | | | | 69,039 | |
| Capital Lease Obligations (Note 5, 7) | 10,699 | | | 326 | 11,025 | |
| Employees' Compensable Leave (Note 5) | 295,531 | | | 1,629 | 297,160 | |
| Notes and Loans Payable (Note 5) | 205,322 | | 124,930 | 32,869 | 363,121 | |
| Liabilities Payable From Restricted Assets (Note 5) | | | | 3,152,001 | 3,152,001 | |
| General Obligation Bonds Payable (Note 5, 6) | 51,603 | 805,615 | | 1,808,023 | 2,665,241 | |
| Revenue Bonds Payable (Note 5, 6) | 6,571,769 | 898,738 | 1,434,609 | 2,816,540 | 11,721,656 | |
| Assets Held for Others | 765,239 | | | 1,255 | 766,494 | |
| Other Noncurrent Liabilities | 122,730 | | | 195,821 | 318,551 | |
| Total Noncurrent Liabilities | 8,490,320 | 1,704,353 | 1,559,539 | 8,008,464 | 19,762,676 | 0 |
| Total Liabilities | 17,868,507 | 1,834,579 | 2,451,174 | 9,651,854 | 31,806,114 | 580,299 |
| **NET ASSETS** | | | | | | |
| Invested in Capital Assets, Net of Related Debt | 6,491,276 | | 805,452 | 45,701 | 7,342,429 | |
| Restricted for: | | | | | | |
| Education | 2,147,076 | | | | 2,147,076 | |
| Debt Retirement | 29,914 | | | 195,501 | 225,415 | |
| Capital Projects | 113,760 | | | | 113,760 | |
| Veterans Land Board Housing Programs | | | | 643,649 | 643,649 | |
| Unemployment Trust Funds | | | | 2,240,512 | 2,240,512 | |
| Funds Held as Permanent Investments: | | | | | | |
| Nonexpendable | 10,597,266 | | | | 10,597,266 | |
| Expendable | 9,830,075 | | | | 9,830,075 | |
| Other | | | | 17,315 | 17,315 | 369,913 |
| Unrestricted | 7,625,802 | 2,123,700 | | (8,391) | 9,741,111 | |
| Total Net Assets | $36,835,169 | $2,123,700 | $ 805,452 | $ 3,134,287 | $42,898,608 | $ 369,913 |

The accompanying notes to the financial statements are an integral part of this statement.

* Employees life, accident and health insurance benefits fund - no combining statements presented.

STATE OF TEXAS

# Statement of Revenues, Expenses and Changes in Fund Net Assets
# Proprietary Funds

For the Fiscal Year Ended August 31, 2007 (Amounts in Thousands)

| | Business-Type Activities – Enterprise Funds | | | | | |
|---|---|---|---|---|---|---|
| | Colleges and Universities | Texas Water Development Board Funds | Texas Department of Transportation Turnpike Authority | Nonmajor Enterprise Funds | Totals | Governmental Activities – Internal Service Fund* |
| **OPERATING REVENUES** | | | | | | |
| Lottery Collections | $ | $ | $ | $ 3,774,555 | $ 3,774,555 | $ |
| Tuition Revenue | 504,187 | | | | 504,187 | |
| Tuition Revenue - Pledged | 2,677,147 | | | | 2,677,147 | |
| Discounts and Allowances | (562,277) | | | | (562,277) | |
| Hospital Revenue - Pledged | 5,737,392 | | | | 5,737,392 | |
| Discounts and Allowances | (2,973,832) | | | | (2,973,832) | |
| Professional Fees | 3,212,352 | | | | 3,212,352 | |
| Professional Fees - Pledged | 16,478 | | | | 16,478 | |
| Discounts and Allowances | (1,917,315) | | | | (1,917,315) | |
| Auxiliary Enterprises | 154,670 | | | | 154,670 | |
| Auxiliary Enterprises - Pledged | 724,081 | | | 81,864 | 805,945 | |
| Discounts and Allowances | (25,750) | | | | (25,750) | |
| Unemployment Taxes | | | | 1,665,242 | 1,665,242 | |
| Other Sales of Goods and Services | 60,623 | | | 21,524 | 82,147 | |
| Other Sales of Goods and Services - Pledged | 459,447 | | 16,744 | 28,805 | 504,996 | |
| Discounts and Allowances | (16,424) | | | | (16,424) | |
| Interest and Investment Income | 1,115 | 78,623 | | 242,676 | 322,414 | |
| Interest and Investment Income - Pledged | 1,599 | 112,920 | | | 114,519 | |
| Federal Revenue | 2,145,464 | | | 84,549 | 2,230,013 | |
| State Grant Revenue | 115,510 | | | | 115,510 | |
| Premium Revenue | | | | 939,879 | 939,879 | 1,390,289 |
| Other Operating Grant Revenue | 423,344 | | | | 423,344 | |
| Other Operating Grant Revenue - Pledged | 527,682 | | | | 527,682 | |
| Other Revenues | 22,192 | 5,796 | | 122,220 | 150,208 | 422 |
| Other Revenues - Pledged | 182,389 | | | 43 | 182,432 | |
| Total Operating Revenues | 11,470,074 | 197,339 | 16,744 | 6,961,357 | 18,645,514 | 1,390,711 |
| **OPERATING EXPENSES** | | | | | | |
| Cost of Goods Sold | 140,263 | | | 58,689 | 198,952 | |
| Salaries and Wages | 8,085,775 | 7,221 | | 43,630 | 8,136,626 | 4,599 |
| Payroll Related Costs | 1,878,397 | 811 | | 11,070 | 1,890,278 | 1,121 |
| Professional Fees and Services | 707,015 | 1,456 | 786 | 66,793 | 776,050 | 1,024 |
| Travel | 230,583 | 68 | | 637 | 231,288 | 28 |
| Materials and Supplies | 1,474,234 | 201 | 1,089 | 5,410 | 1,480,934 | 520 |
| Communication and Utilities | 595,612 | 51 | 561 | 1,146 | 597,370 | 238 |
| Repairs and Maintenance | 288,897 | 104 | 3,097 | 1,460 | 293,558 | 295 |
| Rentals and Leases | 187,790 | 49 | | 10,531 | 198,370 | 385 |
| Printing and Reproduction | 56,984 | | | 15,103 | 72,087 | 16 |
| Depreciation and Amortization | 963,214 | | 391 | 5,076 | 968,681 | |
| Unemployment Benefit Payments | | | | 1,181,349 | 1,181,349 | |
| Bad Debt Expense | 8,146 | 25 | | 2,572 | 10,743 | |
| Interest Expense | 2,656 | 115,501 | 24 | 223,899 | 342,080 | |
| Scholarships | 620,125 | | | | 620,125 | |
| Lottery Fees and Other Costs | | | | 295,703 | 295,703 | |
| Lottery Prize Payments | | | | 2,315,247 | 2,315,247 | |
| Employee/Participant Benefit Payments | | | | 1,164,571 | 1,164,571 | 1,293,957 |
| Claims and Judgments | 11,184 | | | | 11,184 | |
| Other Expenses | 1,112,775 | 2,398 | 19,223 | 61,299 | 1,195,695 | 468 |
| Total Operating Expenses | 16,363,650 | 127,885 | 25,171 | 5,464,185 | 21,980,891 | 1,302,651 |
| Operating Income (Loss) | (4,893,576) | 69,454 | (8,427) | 1,497,172 | (3,335,377) | 88,060 |

*Concluded on the following page*

STATE OF TEXAS

# Statement of Revenues, Expenses and Changes in Fund Net Assets
# Proprietary Funds (concluded)

For the Fiscal Year Ended August 31, 2007 (Amounts in Thousands)

| | Business-Type Activities – Enterprise Funds | | | | | |
|---|---|---|---|---|---|---|
| | Colleges and Universities | Texas Water Development Board Funds | Texas Department of Transportation Turnpike Authority | Nonmajor Enterprise Funds | Totals | Governmental Activities – Internal Service Fund* |
| **NONOPERATING REVENUES (EXPENSES)** | | | | | | |
| Federal Revenue | $ 36,389 | $ 237,396 | $ | $ 2,497 | $ 276,282 | $ |
| Gifts | 462,535 | | | 9 | 462,544 | |
| Gifts - Pledged | 113,342 | | | | 113,342 | |
| Land Income | 5,179 | | 13 | | 5,192 | |
| Interest and Investment Income | 3,453,983 | | 35,828 | 379,735 | 3,869,546 | 39,953 |
| Interest and Investment Income - Pledged | 717,341 | | | | 717,341 | |
| Loan Premium and Fees on Securities Lending | | | | 17,210 | 17,210 | 7,292 |
| Investing Activities Expense | (168,178) | | | (18) | (168,196) | |
| Interest Expense | (301,394) | | (100,456) | (23,731) | (425,581) | |
| Borrower Rebates and Agent Fees | (58) | | | (19,972) | (20,030) | (6,895) |
| Gain on Sale of Capital Assets | 13,361 | | | 2 | 13,363 | |
| Settlement of Claims | 258 | | 17 | 8 | 283 | 25 |
| Claims and Judgments | (1,739) | | | (126) | (1,865) | |
| Other Revenues | 178,494 | | | 59 | 178,553 | |
| Other Revenues - Pledged | 60,592 | | | | 60,592 | |
| Other Expenses | (41,639) | (2,690) | (284) | (1,585) | (46,198) | |
| Total Nonoperating Revenues (Expenses) | 4,528,466 | 234,706 | (64,882) | 354,088 | 5,052,378 | 40,375 |
| Income (Loss) Before Capital Contributions, Endowments and Transfers | (365,110) | 304,160 | (73,309) | 1,851,260 | 1,717,001 | 128,435 |
| **CAPITAL CONTRIBUTIONS, ENDOWMENTS, SPECIAL ITEMS AND TRANSFERS** | | | | | | |
| Capital Contributions - Federal | 74,222 | | | | 74,222 | |
| Capital Contributions - Other | 122,531 | | 2,157 | (16) | 124,672 | |
| Contributions to Permanent and Term Endowments | 184,193 | | | | 184,193 | |
| Special Items (Note 23) | | | | (318,813) | (318,813) | |
| Transfer In (Note 12) | 4,607,617 | 3,637 | 114,885 | 10,968 | 4,737,107 | |
| Transfer Out (Note 12) | (216,209) | (7,626) | | (1,129,161) | (1,352,996) | |
| Total Capital Contributions, Endowments, Special Items and Transfers | 4,772,354 | (3,989) | 117,042 | (1,437,022) | 3,448,385 | 0 |
| Change in Net Assets | 4,407,244 | 300,171 | 43,733 | 414,238 | 5,165,386 | 128,435 |
| Net Assets, September 1, 2006 | 32,433,980 | 1,823,529 | 761,719 | 2,720,044 | 37,739,272 | 241,478 |
| Restatements (Note 14) | (6,055) | | | 5 | (6,050) | |
| Net Assets, September 1, 2006, as Restated | 32,427,925 | 1,823,529 | 761,719 | 2,720,049 | 37,733,222 | 241,478 |
| Net Assets, August 31, 2007 | $36,835,169 | $2,123,700 | $805,452 | $3,134,287 | $42,898,608 | $ 369,913 |

The accompanying notes to the financial statements are an integral part of this statement.

* Employees life, accident and health insurance benefits fund - no combining statements presented.

STATE OF TEXAS

# Statement of Cash Flows
# Proprietary Funds

For the Fiscal Year Ended August 31, 2007 (Amounts in Thousands)

| | Business-Type Activities – Enterprise Funds | | | | | |
|---|---|---|---|---|---|---|
| | Colleges and Universities | Texas Water Development Board Funds | Texas Department of Transportation Turnpike Authority | Nonmajor Enterprise Funds | Totals | Governmental Activities – Internal Service Fund* |
| **CASH FLOWS FROM OPERATING ACTIVITIES** | | | | | | |
| Receipts from Customers | $ 4,326,157 | $ | $ 24,721 | $6,220,835 | $10,571,713 | $ 363,982 |
| Proceeds from Tuition and Fees | 2,636,618 | | | | 2,636,618 | |
| Proceeds from Research Grants and Contracts | 3,641,047 | | | 68,441 | 3,709,488 | |
| Proceeds from Gifts | 3,941 | | | | 3,941 | |
| Proceeds from Loan Programs | 207,216 | | | 748,336 | 955,552 | |
| Proceeds from Auxiliaries | 804,905 | | | | 804,905 | |
| Proceeds from Other Revenues | 616,195 | | | 131,903 | 748,098 | 1,104,092 |
| Payments to Suppliers for Goods and Services | (4,883,975) | (1,940) | (29,212) | (1,394,079) | (6,309,206) | (2,997) |
| Payments to Employees | (9,911,990) | (8,034) | | (52,264) | (9,972,288) | (5,792) |
| Payments for Loans Provided | (246,963) | | | (815,035) | (1,061,998) | |
| Payments for Other Expenses | (587,083) | (68) | | (3,585,178) | (4,172,329) | (1,340,946) |
| Net Cash Provided by Operating Activities | (3,393,932) | (10,042) | (4,491) | 1,322,959 | (2,085,506) | 118,339 |
| **CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES** | | | | | | |
| Proceeds from Debt Issuance | | 670 | | 734,209 | 734,879 | |
| Proceeds from State Appropriations | 3,928,528 | 3,637 | | | 3,932,165 | |
| Proceeds from Gifts | 578,879 | | | | 578,879 | |
| Proceeds from Endowments | 429,776 | | | | 429,776 | |
| Proceeds from Transfers from Other Funds | 175,880 | 168,022 | | 4,392,753 | 4,736,655 | |
| Proceeds from Grant Receipts | 35,397 | 236,605 | | | 272,002 | |
| Proceeds of Advances from Other Funds | | 50,063 | | | 50,063 | |
| Proceeds from Loan Programs | 35,323 | | | | 35,323 | |
| Proceeds from Other Financing Activities | 85,516 | | | 315,177 | 400,693 | |
| Payments of Principal on Debt Issuance | (5,853) | (331,129) | | (777,466) | (1,114,448) | |
| Payments of Interest | (447) | (117,357) | | (146,931) | (264,735) | |
| Payments of Other Costs on Debt Issuance | (72) | | | (3,036) | (3,108) | |
| Payments for Transfers to Other Funds | (414,563) | (168,021) | | (5,669,074) | (6,251,658) | |
| Payments for Grant Disbursements | (35,164) | (9,862) | | | (45,026) | |
| Payments for Advances to Other Funds | (1,106) | (64,904) | | | (66,010) | |
| Payments for Other Uses | (71,912) | | | (164,085) | (235,997) | |
| Net Cash Provided by Noncapital Financing Activities | 4,740,182 | (232,276) | 0 | (1,318,453) | 3,189,453 | 0 |
| **CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES** | | | | | | |
| Proceeds from Sale of Capital Assets | 21,400 | | | 3,059 | 24,459 | |
| Proceeds from Debt Issuance | 2,406,866 | | 124,930 | | 2,531,796 | |
| Proceeds from State Grants and Contracts | 18,201 | | | | 18,201 | |
| Proceeds from Federal Grants and Contracts | 438 | | | | 438 | |
| Proceeds from Gifts | 4,710 | | | | 4,710 | |
| Proceeds from Other Financing Activities | 12,509 | | 13 | 820 | 13,342 | |
| Proceeds from Capital Contributions | 239,497 | | 2,156 | | 241,653 | |
| Proceeds of Advances from Other Funds | 49,684 | | | | 49,684 | |
| Payments for Additions to Capital Assets | (1,930,713) | | (199,392) | (4,540) | (2,134,645) | |
| Payments of Principal on Debt Issuance | (1,811,158) | | (124,930) | (1,809) | (1,937,897) | |
| Payments for Capital Leases | (23,261) | | | | (23,261) | |
| Payments of Interest on Debt Issuance | (315,336) | | (98,636) | | (413,972) | |
| Payments of Other Costs on Debt Issuance | (73,964) | | (283) | | (74,247) | |
| Net Cash Provided by Capital and Related Financing Activities | (1,401,127) | 0 | (296,142) | (2,470) | (1,699,739) | 0 |

*Concluded on the following page*

STATE OF TEXAS

# Statement of Cash Flows
# Proprietary Funds (concluded)

For the Fiscal Year Ended August 31, 2007 (Amounts in Thousands)

| | Business-Type Activities – Enterprise Funds | | | | | |
|---|---|---|---|---|---|---|
| | Colleges and Universities | Texas Water Development Board Funds | Texas Department of Transportation Turnpike Authority | Nonmajor Enterprise Funds | Totals | Governmental Activities – Internal Service Fund* |
| **CASH FLOWS FROM INVESTING ACTIVITIES** | | | | | | |
| Proceeds from Sale of Investments | $32,445,188 | $ 35,995 | $ 942,234 | $1,016,558 | $34,439,975 | $ |
| Proceeds from Interest and Investment Income | 1,327,626 | 269,823 | 47,263 | 305,939 | 1,950,651 | 3,202 |
| Proceeds from Principal Payments on Loans | | 375,766 | | | 375,766 | |
| Payments for Nonprogram Loans Provided | | (395,790) | | (38) | (395,828) | |
| Payments to Acquire Investments | (33,418,948) | (24,125) | (622,299) | (1,203,023) | (35,268,395) | (117,054) |
| Net Cash Provided by Investing Activities | 353,866 | 261,669 | 367,198 | 119,436 | 1,102,169 | (113,852) |
| Net Increase in Cash and Cash Equivalents | 298,989 | 19,351 | 66,565 | 121,472 | 506,377 | 4,487 |
| Cash and Cash Equivalents, September 1, 2006 | 3,302,306 | 231,709 | 395,005 | 3,144,034 | 7,073,054 | 27,179 |
| Restatements | 670 | | | (164) | 506 | |
| Cash and Cash Equivalents, September 1, 2006, as Restated | 3,302,976 | 231,709 | 395,005 | 3,143,870 | 7,073,560 | 27,179 |
| Cash and Cash Equivalents, August 31, 2007 | $ 3,601,965 | $ 251,060 | $ 461,570 | $3,265,342 | $ 7,579,937 | $ 31,666 |
| **RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES** | | | | | | |
| Operating Income (Loss) | $ (4,893,576) | $ 69,454 | $ (8,427) | $1,497,172 | $ (3,335,377) | $ 88,060 |
| Adjustments to Reconcile Operating Income (Loss) to Net Cash Provided by Operating Activities: | | | | | | |
| Depreciation and Amortization | 963,214 | | 391 | 5,076 | 968,681 | |
| Bad Debt Expense | 229,767 | 26 | | 2,533 | 232,326 | |
| Operating Income (Loss) and Cash Flow Categories Classification Differences | (122) | (79,125) | | 187,749 | 108,502 | (1,515) |
| Changes in Assets and Liabilities: | | | | | | |
| (Increase) Decrease in Receivables | (309,567) | (48) | (682) | (51,829) | (362,126) | 8,611 |
| (Increase) Decrease in Due From Other Funds | (9,684) | | | 16 | (9,668) | (1,731) |
| (Increase) Decrease in Inventories | 1,357 | | | (1,363) | (6) | |
| (Increase) Decrease in Notes Receivable | 3,247 | | | | 3,247 | |
| (Increase) Decrease in Loans and Contracts | (12,061) | | | (271,023) | (283,084) | |
| (Increase) Decrease in Other Assets | (24,250) | | | (29,072) | (53,322) | |
| (Increase) Decrease in Prepaid Expenses | (34,120) | | | 57 | (34,063) | |
| (Increase) Decrease in State Appropriations | (10,925) | | | | (10,925) | |
| Increase (Decrease) in Payables | (6,779) | (292) | 75 | (254,378) | (261,374) | (46,989) |
| Increase (Decrease) in Deposits | 6,020 | | | | 6,020 | |
| Increase (Decrease) in Due To Other Funds | 18,022 | (57) | (1,697) | (84) | 16,184 | 72,369 |
| Increase (Decrease) in Deferred Revenue | 121,323 | | 5,849 | 16,995 | 144,167 | (466) |
| Increase (Decrease) in Compensated Absence Liability | 33,268 | | | 22 | 33,290 | |
| Increase (Decrease) in Benefits Payable | 162 | | | 163,698 | 163,860 | |
| Increase (Decrease) in Other Liabilities | 530,772 | | | 57,390 | 588,162 | |
| Total Adjustments | 1,499,644 | (79,496) | 3,936 | (174,213) | 1,249,871 | 30,279 |
| Net Cash Provided by Operating Activities | $ (3,393,932) | $ (10,042) | $ (4,491) | $1,322,959 | $ (2,085,506) | $ 118,339 |
| **NONCASH TRANSACTIONS** | | | | | | |
| Net Change in Fair Value of Investments | $ (1,903,876) | $ (13) | $ 250 | $ (168,164) | $ (2,071,803) | $ 261 |
| Donation of Capital Assets | $ (26,372) | $ | $ | $ | $ (26,372) | $ |
| Borrowing Under Capital Lease Purchase | $ (3,296) | $ | $ | $ | $ (3,296) | $ |
| Other | $ (35,389) | $ | $ | $ | $ (35,389) | $ |

The accompanying notes to the financial statements are an integral part of this statement.

* Employees life, accident and health insurance benefits fund – no combining statements presented.

STATE OF TEXAS

# Statement of Fiduciary Net Assets

August 31, 2007 (Amounts in Thousands)

| | Pension and Other Employee Benefit Trust Funds | External Investment Trust Funds | Private-Purpose Trust Funds | Agency Funds |
|---|---|---|---|---|
| **ASSETS** | | | | |
| Cash and Cash Equivalents | $ 1,397,294 | $ 4,796 | $ 41,334 | $ 956,477 |
| Restricted Cash and Cash Equivalents | | | 350 | |
| Securities Lending Collateral | 29,152,945 | | 80,137 | |
| Investments: | | | | |
| U.S. Government | 23,069,687 | 2,737,650 | 34,736 | 236,018 |
| Corporate Equity | 64,709,324 | | 1,489,473 | 135,906 |
| Corporate Obligations | 14,265,002 | | 79,569 | 35 |
| Repurchase Agreements | | 13,956,076 | 572,179 | 48,919 |
| Foreign Securities | 23,631,532 | | | |
| Other | 10,193,445 | 47,358 | 1,074,764 | 21,501 |
| Receivables: | | | | |
| Interest and Dividends | 457,177 | 39,008 | 4,026 | 1,269 |
| Accounts | 287,321 | | 408 | 21,241 |
| Other Intergovernmental | | | | 1,492 |
| Investment Trades | 220,489 | | 3,451 | |
| Other | 397 | | 1,538 | 15 |
| Due From Other Funds (Note 12) | 123,913 | | | 255 |
| Inventories | | | 1 | |
| Properties, at Cost, Net of Accumulated Depreciation | 34,954 | | 1,036 | |
| Other Assets | 250 | | 88,515 | 1,663,436 |
| Total Assets | 167,543,730 | 16,784,888 | 3,471,517 | 3,086,564 |
| **LIABILITIES** | | | | |
| Payables: | | | | |
| Accounts | $ 119,767 | $ 81,149 | $ 14,307 | $ 14,878 |
| Investment Trades | 312,231 | 249,983 | 5,847 | |
| Payroll | 116,860 | | | |
| Other Intergovernmental | | | | 716,125 |
| Interest | | | 47 | |
| Other Liabilities | 482,493 | 773 | | |
| Deferred Revenue | 32,263 | | 59 | |
| Due To Other Funds (Note 12) | 55,474 | | | 479 |
| Employees' Compensable Leave | 5,308 | | | |
| Obligations/Securities Lending | 29,152,946 | | 80,137 | |
| Funds Held for Others | | | 88,515 | 2,355,082 |
| Total Liabilities | 30,277,342 | 331,905 | 188,912 | 3,086,564 |
| **NET ASSETS** | | | | |
| Held in Trust for: | | | | |
| Pension Benefits and Other Purposes | 137,266,388 | | | |
| Individuals, Organizations and Other Governments | | | 3,282,605 | |
| Pool Participants | | 16,452,983 | | |
| Total Net Assets | $137,266,388 | $ 16,452,983 | $ 3,282,605 | $ 0 |

The accompanying notes to the financial statements are an integral part of this statement.

STATE OF TEXAS

# Statement of Changes in Fiduciary Net Assets

For the Fiscal Year Ended August 31, 2007 (Amounts in Thousands)

| | Pension and Other Employee Benefit Trust Funds* | External Investment Trust Funds | Private-Purpose Trust Funds |
|---|---|---|---|
| **ADDITIONS** | | | |
| Contributions: | | | |
| Member Contributions | $ 2,351,857 | $ | $ |
| State Contributions | 2,515,048 | | |
| Premium Contributions | 723,177 | | |
| Federal Contributions | 80,888 | | 12,125 |
| Other Contributions | 282,809 | | 49,625 |
| Total Contributions | 5,953,779 | 0 | 61,750 |
| Investment Income: | | | |
| From Investing Activities: | | | |
| Net Appreciation in | | | |
| Fair Value of Investments | 13,174,522 | | 298,832 |
| Interest and Investment Income | 3,887,316 | 926,165 | 69,786 |
| Total Investing Income | 17,061,838 | 926,165 | 368,618 |
| Less Investing Activities Expense | 47,949 | 8,461 | 818 |
| Net Income from Investing Activities | 17,013,889 | 917,704 | 367,800 |
| From Securities Lending Activities: | | | |
| Securities Lending Income | 1,182,712 | | 4,780 |
| Less Securities Lending Expense: | | | |
| Borrower Rebates | 1,114,500 | | 4,680 |
| Management Fees | 9,679 | | |
| Net Income from Securities Lending | 58,533 | 0 | 100 |
| Total Net Investment Income | 17,072,422 | 917,704 | 367,900 |
| Capital Share and Individual Account Transactions: | | | |
| Net Increase in Participant Investments | 0 | 2,927,186 | 0 |
| Other Additions: | | | |
| Settlement of Claims | 57 | | 4,067 |
| Other Revenue | 830 | | 248,379 |
| Loss on Sale of Properties | (6) | | |
| Transfer In (Note 12) | 87,362 | | |
| Total Other Additions | 88,243 | 0 | 252,446 |
| Total Additions | 23,114,444 | 3,844,890 | 682,096 |
| **DEDUCTIONS** | | | |
| Benefits | 8,546,841 | | 22,961 |
| Refunds of Contributions | 357,554 | | |
| Transfer Out (Note 12) | 84,114 | | 1,060 |
| Intergovernmental Payments | (1,293) | | 84,343 |
| Administrative Expenses | 47,893 | | 7,879 |
| Depreciation Expense | 1,798 | | 38 |
| Settlement of Claims | 5 | | 48,579 |
| Interest Expense | 129 | | 31 |
| Other Expenses | 3,242 | | 132,206 |
| Total Deductions | 9,040,283 | 0 | 297,097 |
| **INCREASE IN NET ASSETS** | 14,074,161 | 3,844,890 | 384,999 |
| **NET ASSETS** | | | |
| Net Assets, September 1, 2006 | 123,504,102 | 12,608,093 | 2,897,606 |
| Restatements (Note 14) | (311,875) | | |
| Net Assets, September 1, 2006, as Restated | 123,192,227 | 12,608,093 | 2,897,606 |
| Net Assets, August 31, 2007 | $ 137,266,388 | $ 16,452,983 | $ 3,282,605 |

The accompanying notes to the financial statements are an integral part of this statement.

* State contributions to the Teacher Retirement System (TRS) pension and other postemployment benefits plans are included in transfers in. For fiscal 2007, the total state contributions were $1,735,915 (in thousands) for the TRS plans.

# State of Texas
# Index for Notes to Financial Statements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# Note 1
# Summary of Significant Accounting Policies

## BASIS OF PRESENTATION

The accompanying basic financial statements of the state of Texas have been prepared in conformity with generally accepted accounting principles (GAAP) as prescribed by the Governmental Accounting Standards Board (GASB).

The state implemented the following GASB Statement and GASB Technical Bulletin in fiscal 2007.

Administrators of the Employees Retirement System and Teacher Retirement System plans for Other Post-Employment Benefits (OPEB) implemented GASB Statement No. 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*. The employer reporting requirements for OPEB are detailed in GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*. GASB 45 is effective for the state beginning in fiscal 2008. OPEB includes post employment healthcare and other benefits such as life insurance when provided separately from a pension plan.

GASB Technical Bulletin 2006-1, *Accounting and Financial Reporting by Employers and OPEB Plans for Payments from the Federal Government Pursuant to the Retiree Drug Subsidy Provisions of Medicare Part D*, was implemented in two parts. The portion implemented in 2006 established guidelines to record Medicare Part D reimbursements received from the federal government in relation to prescription drug benefits. The portion of the bulletin implemented in 2007, simultaneously with GASB 43, pertains specifically to Medicare Part D measurement, recognition and the required supplementary information requirements as they pertain to OPEB.

Financial reporting for the state is based on all GASB pronouncements, as well as Financial Accounting Standards Board (FASB) statements and interpretations, Accounting Principles Board (APB) opinions and Accounting Research Bulletins issued on or before Nov. 30, 1989, that do not conflict with or contradict GASB pronouncements. FASB pronouncements issued after Nov. 30, 1989, are not followed in the preparation of the accompanying financial statements.

## FINANCIAL REPORTING ENTITY

For financial reporting purposes, the state of Texas has included all funds, agencies, boards, commissions, authorities, colleges and universities and other organizations that comprise its legal entity. The reporting entity also includes legally separate organizations for which the state is financially accountable and any other organizations that would cause the financial statements to be misleading or incomplete if they were excluded. All activities considered part of the state are included. These activities provide a range of services in the areas of education, health and human services, public safety and corrections, transportation, natural resources and recreation, regulation, general government, employee benefits and teacher retirement benefits.

The reporting entity for the state is in accordance with the criteria established by GASB. A listing and brief summary of the component units and their relationship to the state of Texas is discussed in Note 19. These financial statements present the state of Texas (the primary government) and its component units.

The state's public school districts and junior and community colleges are excluded from the reporting entity. The state is not financially accountable for these entities. They are legally separate entities that are fiscally independent of the state. This independence warrants their exclusion from the financial statements.

## FINANCIAL REPORTING STRUCTURE

The basic financial statements include both government-wide financial statements and fund financial statements. The reporting model based on GASB Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*, focuses on the state as a whole in the government-wide financial statements and major individual funds in the fund financial statements.

### Government-wide Financial Statements

The government-wide financial statements (statement of net assets and statement of activities) display information about the state as a whole and the change in aggregate financial position resulting from the activities of the fiscal period, except for its fiduciary activities. These statements include

separate columns for the governmental and business-type activities of the state (including its blended component units) as well as its discretely presented component units. In the statement of net assets, both the governmental and business-type activities columns are presented on a consolidated basis by column and are reflected on a full accrual, economic resource basis, which incorporates noncurrent investments, capital assets as well as long-term debt and obligations.

The statement of activities reflects both the gross and net cost per functional category (public safety, transportation, etc.), which is otherwise supported by general government revenues (sales, use, franchise taxes, etc.). In the statement of activities, program revenues are netted against program expenses, which include depreciation, to present the net cost of each program. Program revenues must be directly associated with the function or with a business-type activity. Internally dedicated resources are reported as general revenues rather than program revenues. Certain general government administrative overhead expenses have been charged to the various functions of the state. These charges are paid from applicable funding sources and are reflected as direct expenses. The amount of direct interest expense included in direct expenses in the statement of activities is $45.4 million.

Program revenues include (a) charges for services, (b) operating grants and contributions and (c) capital grants and contributions. Charges for services include special assessments and payments made by parties outside of the state's citizenry if that money is restricted to a particular program. Operating grants include operating-specific and discretionary (either operating or capital) grants while the capital grants column reflects capital-specific grants.

The state's fiduciary funds are presented in the fund financial statements by type (pension, investment trust, private-purpose and agency). The assets of the fiduciary funds are held for the benefit of others and cannot be used to address activities or obligations of the government. They are not, therefore, incorporated into the government-wide financial statements.

## Fund Financial Statements

The fund financial statements are presented after the government-wide financial statements. They display information about major funds individually and in the aggregate for governmental and proprietary funds. In governmental and fiduciary funds, assets and liabilities are presented in order of relative liquidity. In proprietary funds, assets and liabilities are presented in a classified format which distinguishes between all current and noncurrent assets and liabilities. Current assets in the classified format are those considered available for appropriation and expenditure. Examples of expendable financial resources include cash, various receivables and short-term investments. All other assets are considered noncurrent. Current liabilities are obligations to be paid within the next fiscal year. Examples include payables and the current portion of long-term liabilities.

The major governmental funds in the fund financial statements are presented on a current financial resource and modified accrual basis of accounting. This presentation is deemed most appropriate to demonstrate (a) compliance with legal and covenant requirements, (b) the source and use of financial resources and (c) how the state's actual experience conforms to the budget. Since the governmental fund financial statements are presented using a different measurement focus and basis of accounting than the government-wide financial statements, governmental activities column, a reconciliation is presented. This explains the adjustments required to restate the fund-based financial statements for the government-wide financial statements' governmental activities column.

The state uses funds to report its financial position and the results of its operations. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities. A fund is a separate accounting entity with a self-balancing set of accounts. State transactions are recorded in the fund types described below.

## Governmental Fund Types

Governmental funds focus on the sources and uses of funds. Included in the governmental fund financial statements are general, special revenue, debt service, capital

projects and permanent funds. The general fund is the principal operating fund used to account for most of the state's general activities. It accounts for all financial resources except those accounted for in other funds. Special revenue funds account for specific revenue proceeds which are legally restricted for specific purposes. Debt service funds account for the accumulation of resources for and the payment of general long-term debt principal and interest. Capital projects funds account for financial resources used for the acquisition, repair, renovation or construction of major capital facilities other than those financed by proprietary or similar trust funds. Permanent funds are used to report resources that are legally restricted to the extent that only earnings, and not principal, may be used for purposes that support the state's programs.

The state's major governmental funds are listed below.

The **General Fund** includes transactions for general government, education, employee benefits, teacher retirement benefits, health and human services, public safety and corrections, transportation, natural resources and recreation and regulatory services.

The **State Highway Fund** receives funds allocated by law for public road construction, maintenance, monitoring and law enforcement of the state's highway system.

The **Permanent School Fund** is an investment fund consisting of land and proceeds from the sale of land that establishes a perpetual provision for the support of the public schools of Texas. All dividends and other income are allocated to the credit of the available school fund.

### Proprietary Fund Types

Proprietary funds focus on determining operating income, changes in net assets, financial position and cash flows. Generally accepted accounting principles similar to those used by private sector businesses are applied in accounting for these funds. Included in proprietary fund financial statements are enterprise funds and an internal service fund.

Enterprise funds are used to report any activity for which a fee is charged to external users for goods or services. Activities must be reported as enterprise funds if any one of the following criteria is met.

1. The activity is financed with debt that is secured solely by a pledge of the net revenues from fees and charges of the activity;
2. Laws or regulations require that the activity's costs of providing services, including capital costs (such as depreciation or debt service), be recovered with fees and charges; or
3. The pricing policies of the activity establish fees and charges designed to recover its costs, including capital costs.

Internal service funds account for the financing of goods or services provided by one agency to other agencies on a cost reimbursement basis. The **Employees Life, Accident and Health Insurance Benefits Fund**, presented on the proprietary fund financial statements, is used to account for the services provided by the Group Insurance Program to other agencies of the reporting entity.

The state's major enterprise funds are listed below.

The **Colleges and Universities** include University of Texas System, Texas A&M University System, Texas Tech University System, University of Houston System, Texas State University System, University of North Texas System, Texas Woman's University, Stephen F. Austin State University, Texas Southern University, Midwestern State University and Texas State Technical College. They are represented as a single column in the proprietary fund financial statements and individually in the schedules of colleges and universities in the other supplementary information section of this report.

The **Texas Water Development Board** funds include water development funds, agricultural water conservation funds and water pollution control revolving funds which issue bonds to provide assistance to political subdivisions.

The **Texas Department of Transportation Turnpike Authority** receives proceeds from the sale of bonds that are used to finance a portion of the costs of planning, designing, engineering, developing and constructing the initial phase (referred to as the "FY2002 Project") of the Central Texas Turnpike System.

### Fiduciary Fund Types

Fiduciary funds account for assets held by the state in either a trustee capacity or as an agent for individuals, private organizations, other governmental units and/or other funds. When assets are held under the terms of a formal trust agreement, either a pension trust fund or a private-purpose trust fund is used.

Pension and other employee benefit trust funds report resources held in trust for the members and beneficiaries of defined benefit pension plans. Additional information about pension trust funds can be found in Note 9.

Investment trust funds report the external portions of investment pools reported by the sponsoring government.

Private-purpose trust funds report all other trust arrangements whose principal and interest benefit individuals, private organizations or other governments.

Agency funds report assets the state holds on behalf of others in a purely custodial capacity. Agency funds involve only the receipt and remittance of fiduciary resources to individuals, private organizations or other governments.

### Component Units

All of the component units for the state of Texas are reported as nonmajor component units. The combining statement of net assets - component units and the combining statement of activities - component units are presented for all of the discrete component units.

Additional information about blended and discretely presented component units can be found in Note 19. More detailed information of the individual component units is available from the component units' separately issued financial statements.

## BASIS OF ACCOUNTING, MEASUREMENT FOCUS AND FINANCIAL STATEMENT PRESENTATION

Government-wide financial statements are presented using the economic resources measurement focus and the accrual basis of accounting. Under the economic resources measurement focus, all economic resources and obligations of the reporting government, both current and noncurrent, are reported in the government-wide financial statements. Under the accrual basis of accounting, revenues, expenses, gains, losses, assets and liabilities resulting from exchange and exchange-like transactions are recognized when the exchange takes place. Revenues, expenses, gains, losses, assets and liabilities resulting from non-exchange transactions are recognized in accordance with GASB Statement No. 33, *Accounting and Financial Reporting for Non-exchange Transactions*.

The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. Governmental funds use the flow of current financial resources measurement focus and the modified accrual basis of accounting. With this measurement focus, only current assets and current liabilities are included on the balance sheet. Operating statements of these funds present increases (i.e., revenues and other financing sources) and decreases (i.e., expenditures and other financing uses) in net current assets.

All governmental funds use the modified accrual basis of accounting. Under the modified accrual basis of accounting, revenues are recognized in the period in which they become both measurable and available to finance operations of the fiscal year or liquidate liabilities existing at fiscal year end. The state of Texas considers all major revenue reported in the governmental funds to be available if the revenues are due at year end and collected within 60 days thereafter.

Tax, grant, interest, tuition and sales of goods and services that are associated with the current fiscal period are considered to be susceptible to accrual and therefore, have been recognized as revenues of the current fiscal period. Grants are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met. All other revenue items are considered to be measurable and available only when cash is received by the state.

Expenditures and other uses of financial resources are recognized when the related liability is incurred. Although agency funds use the accrual basis of accounting, they do not have a measurement focus because they do not recognize revenues and expenditures.

Amounts paid to acquire capital assets are capitalized as assets in the government-wide financial statements rather

than reported as expenditures. Proceeds of long-term debt are recorded as liabilities in the government-wide financial statements rather than as other financing sources. Amounts paid to reduce long-term indebtedness of the state are reported as reductions of the related liabilities rather than as expenditures. Proprietary fund types, pension trust funds, investment trust funds and private-purpose trust funds are reported on the accrual basis of accounting. Under the accrual basis of accounting, revenues are recognized when earned and expenses are recognized at the time liabilities are incurred.

Proprietary funds distinguish operating from nonoperating items. Operating revenues and expenses result from providing services or producing and delivering goods in connection with the proprietary funds principal ongoing operations. Operating expenses for enterprise and internal service funds include the cost of sales and services, administrative expenses and depreciation on capital assets. Revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

### Budgetary Information

The budgetary comparison schedule and the notes to the budgetary comparison schedule are in the required supplementary information other than Management Discussion and Analysis section. The budgetary comparison schedule presents the original budget, the final budget and the actual activity of the major governmental funds. Reconciliations for the general fund and the state highway fund budgetary basis to the GAAP basis are presented as required supplementary information with explanations of the reconciling items. Budgetary information for nonmajor governmental funds is presented as other supplementary information.

### Cash and Cash Equivalents

For reporting purposes, this account includes cash on hand, cash in transit, cash in local banks, cash in the Federal and State Treasuries and cash equivalents. Cash in local banks is primarily held by special revenue funds, employee benefit trust funds, enterprise funds and component units. Cash balances of most state funds are pooled and invested by the Treasury Operations Division of the Comptroller's office. Interest earned is deposited in the general revenue fund and specified funds designated by law.

The statement of cash flows for proprietary funds shows the change in cash and cash equivalents during the fiscal year. Cash equivalents are defined as short-term, highly liquid investments that are both (a) readily convertible to known amounts of cash and (b) so near maturity they present insignificant risk of changes in value due to changes in interest rates. Investments with an original maturity of three months or less and that are used for cash management rather than investing activities are considered cash equivalents. Restricted securities held as collateral for securities lending are not included as cash equivalents on the statement of cash flows.

### Investments

Investments are reported at fair value in the balance sheet or other statement of financial position. Fair value is the amount at which an investment could be exchanged in a current transaction between willing parties other than in a forced or liquidation sale or through consultation with industry advisors. Certain money market investments may be reported at amortized cost provided the investment has a remaining maturity of one year or less at time of purchase. All investment income, including changes in the fair value of investments, is recognized as revenue in the operating statement or statement of activities. The distribution to the available school fund is based on the total return based formula methodology discussed in Note 22. The amount of transfers allocated to the available school fund is $843.1 million. The objective, significant terms and risks of derivative investments at Aug. 31, 2007, can be found in Note 3.

### Receivables and Payables

The major receivables for governmental activities and business-type activities are taxes and investment trade, respectively. See Note 24 for details on taxes receivable. All receivables are shown net of uncollectible amounts. Other receivables consist primarily of food stamp and nutrition assistance program receivables in the general fund and receivables from private sponsored programs in the colleges and universities fund. Activities between funds that repre-

sent lending/borrowing arrangements outstanding at the end of the fiscal year are interfund loans. All other outstanding balances between funds are reported as "due from/due to other funds." Any residual balances between governmental and business-type activities are reported in the government-wide financial statements as "internal balances."

Noncurrent interfund receivables between funds, as shown in Note 12, are reported as a fund balance reserve account in applicable governmental funds to indicate they are not available for appropriation and are not expendable financial resources.

Trade receivables are reported for sales of investments pending settlement. Trade payables are purchases of investments pending settlement.

### Inventories and Prepaid Items

Inventories include both merchandise inventories on hand for sale and consumable inventories. Inventories are valued at cost generally utilizing the last-in, first-out method.

The consumption method of accounting is used to account for inventories that appear in both governmental and proprietary fund types. The cost of these items is expensed when the items are consumed. Prepaid items reflect payments for costs applicable to future accounting periods and are recorded in both government-wide financial statements and fund financial statements.

### Restricted Assets

Restricted assets include monies or other resources restricted by legal or contractual requirements. These assets include certain proceeds of enterprise fund general obligation and revenue bonds, as well as certain revenues, set aside for statutory or contractual requirements. Assets held in reserve for guaranteed student loan defaults are also included.

### Capital Assets

Capital assets are reported in proprietary funds, trust funds and government-wide financial statements. The capitalization threshold and the estimated useful life of the assets vary depending upon the asset type. Note 2 includes a chart identifying the capitalization threshold and the estimated useful life by asset type. It also provides information on the state's depreciation policy and other detailed information.

GASB 34 allows an alternative (modified) approach which reflects a reasonable value of the asset and cost required to maintain the service potential at established minimum standards in lieu of depreciation. The state has elected to use this option for its highway infrastructure. The state has developed and implemented an asset management system that establishes minimum standards and makes a yearly determination whether the minimum standards are being met. Disclosures of the minimum standards and the current status of the state's system of highways are included in the required supplementary information other than MD&A section of this report.

### Long-Term Liabilities

Reporting long-term liabilities in the statement of net assets requires two components (a) the amount due in one year (current) and (b) the amount due in more than one year (noncurrent).

General long-term liabilities consist of the noncurrent portion of capital lease obligations, compensable leave, claims and judgments and other noncurrent liabilities. General long-term liabilities are not reported as liabilities in governmental funds but are reported in the governmental activities column in the government-wide statement of net assets. The state reports rebatable arbitrage in claims and judgments. General long-term debt is not limited to liabilities arising from debt issuances but may also include noncurrent liabilities on lease-purchase agreements and other commitments that are not current liabilities properly recorded in governmental funds.

In the government-wide financial statements and proprietary fund financial statements, bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the straight-line or the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Deferred issuance costs are reported as deferred charges and amortized over the term of the debt.

In the governmental fund financial statements, bond premiums and discounts, as well as bond issuance costs, are recognized during the current period. The face amount of the debt issued is reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

### Employees' Compensable Leave Balances

GASB Statement No. 16, *Accounting for Compensated Absences*, establishes standards of accounting and reporting for compensated absences (vacation, unpaid overtime and sick leave) by state and local governmental entities. GASB 34 requires governments to report and disclose the portion of compensated absences that is due within one year of the statement date.

***Annual leave***, commonly referred to as vacation leave, and other compensated absences with similar characteristics is accrued as a liability as the benefits are earned by the employee if both the employee's right to receive compensation is attributable to services already rendered and it is probable the employer will compensate the employee for the benefits through paid time off or some other means, such as cash payments at termination or retirement. Employees accrue vacation time at a rate of eight to 21 hours per month depending on years of employment. The maximum number of hours that can be carried forward to the next fiscal year ranges from 180 hours to 532 hours based on years of service.

***Overtime***, under the federal Fair Labor Standards Act and state laws, can be accumulated in lieu of immediate payment as compensatory leave (at one-and-one-half hours for each overtime hour worked) for nonexempt, nonemergency employees to a maximum of 240 hours. All overtime exceeding 240 hours must be paid with the next regular payroll. At termination or death, all overtime balances must be paid in full. For emergency personnel (firefighters, law enforcement, prison officers, etc.), overtime can be accumulated to a maximum of 480 hours. Unpaid overtime must be included in the calculation of current and noncurrent liabilities for each employee since it may be used like compensatory time or be paid.

***Compensatory leave*** is allowed for exempt employees not eligible for overtime pay. This leave is accumulated on an hour-for-hour basis and must be taken within one year from date earned or it lapses. There is no death or termination benefit for compensatory leave and it is nontransferable. Compensatory leave is reported as a current liability.

***Sick leave*** is accrued at a rate of eight hours per month with no limit on the amount that can be carried forward to the next fiscal year. Accumulated sick leave is not paid at employee termination, although an employee's estate may be paid for one-half of the accumulated sick leave to a maximum of 336 hours. A member who retires based on service or a disability is entitled to service credit in the retirement system for unused sick leave on the last day of employment. The maximum amount of the state's contingent obligation for sick leave has not been determined. However, the probability of a material impact on state operations in any given fiscal year is considered remote.

### Capital Lease Obligations

Capital lease contracts payable, which are not funded by current resources, represent the liability for future lease payments under capital lease contracts. Note 7 provides details for capital lease obligations.

### Encumbrances

Encumbrances represent commitments related to unperformed contracts for goods or services. Encumbrance accounting is utilized in the governmental funds. Encumbrances outstanding at year end are reported as reservations of fund balances and do not constitute expenditures or liabilities because the commitments will be honored during the subsequent year or years.

### Net Assets

Invested in capital assets, net of related debt consists of capital assets including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of bonds, mortgages, notes or other debt attributable to the acquisition, construction or improvement of such assets. Significant unspent related debt proceeds are not included in the calculation of invested in capital assets, net

of related debt. The unspent portion of the debt is included in restricted for capital projects.

The state reports net assets as restricted when constraints placed on net assets are (a) externally imposed by creditors, grantors, contributors or laws or regulations of other governments or (b) imposed by law through constitutional provisions or enabling legislation. Enabling legislation authorizes the government to assess, levy, charge or otherwise mandate payment of resources (from external resource providers) and includes a legally enforceable requirement that those resources be used only for the specific purposes stipulated in the legislation. Restricted net assets are designated as either expendable or nonexpendable. Expendable restricted net assets are those funds that may be expended for either a stated purpose or for a general purpose subject to externally imposed stipulations. Nonexpendable restricted net assets are those funds that are required to be retained in perpetuity. Restricted net assets include the state's permanent endowment funds subject to externally imposed restrictions governing their use.

Unrestricted net assets consist of net assets that do not meet the definition of invested in capital assets, net of related debt or restricted net assets.

When both restricted and unrestricted net assets are available for use, it is the state's policy to use restricted resources first and then unrestricted resources as they are needed.

Fund balance reserve and designated fund balances for governmental funds are classified to reserved, unreserved/designated or unreserved/undesignated. Reserved fund balances are (a) funds legally segregated for a specific use or (b) assets which, by their nature, are not available for expenditure. Unreserved fund balances reflect the balances available for appropriation for the general purposes. Designations reflect senior management's self-imposed limitations on the use of available current financial resources. Note 13 presents disaggregated fund balances.

## Interfund Activity and Transactions - Government-wide Financial Statements

GASB 34 established a classification system with terms and definitions for interfund activity and modified requirements for reporting transfers.

***Interfund Activity***

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements with the exception of activities between governmental activities and business-type activities. Interfund activity with fiduciary funds has been reclassified and reported as external activity.

Interfund payables and receivables have been eliminated from the statement of net assets except for amounts due between governmental and business-type activities. These amounts are reported as internal balances on the statement of net assets. Interfund activities between the primary government and component units with a different year end are limited and immaterial. Note 12 provides details of interfund activities and transactions.

***Interfund Transactions***

Interfund transactions with discretely presented component units have been reclassified and reported as external activity.

## Risk Financing

The state maintains a combination of commercial insurance and a self-insurance program. The state is self-insured for workers' compensation and unemployment compensation claims and funds the liabilities on a pay-as-you-go basis. The state's group insurance program is provided through a combination of insurance contracts, a self-funded health plan and health maintenance organization contracts.

Liabilities are reported when it is probable that a loss has occurred and the amount of that loss can be reasonably estimated. Liabilities include an amount for claims that have been incurred but not reported. For additional information, see Note 17.

## NOTE 2
# Capital Assets

Assets are capitalized at cost or, if not purchased, at appraised fair value as of the date of acquisition. Based on the requirements of GASB Statement No. 34, *Basic Financial Statements - and Management Discussion and Analysis - for State and Local Governments*, depreciation is reported on all "exhaustible" assets. "Inexhaustible assets," such as works of art and historical treasures are not depreciated. Professional, academic and research library books and materials are considered "exhaustible" assets and are depreciated. All capital assets acquired by proprietary funds or trust funds are reported at cost or estimated historical cost if actual historical cost is not available. Donated assets are reported at fair value on the acquisition date. Assets are depreciated over the estimated useful life of the asset using the straight-line method. The capitalization threshold and useful lives are as follows.

### Capitalization of Assets

| Type | Capitalization Threshold | Estimated Useful Life |
|---|---|---|
| Land and Land Improvements | $ 0 | Not applicable |
| Infrastructure, Non-Depreciable | 0 | Not applicable |
| Construction in Progress | 0 | Not applicable |
| Buildings and Building Improvements | 100,000 | 5-30 years |
| Infrastructure, Depreciable | 500,000 | 10-50 years |
| Facilities and Other Improvements | 100,000 | 10-60 years |
| Furniture and Equipment | 5,000 | 3-15 years |
| Vehicles, Boats and Aircraft | 5,000 | 5-40 years |
| Other Capital Assets (Libraries, Leasehold Improvements and Livestock) | Various | 0-22 years |

Historical cost records for some land and mineral interests are incomplete or not available. Accordingly, historical costs have been estimated. The effect on the financial statements of any error resulting from assumptions and estimates is not considered material.

Most land improvements (infrastructure), including curbs, sidewalks, fences, bridges and lighting systems, are capitalized. The state's highway infrastructure, expected to be maintained in perpetuity, is reported using the modified approach allowed by GASB 34.

Capitalization of interest incurred during the construction of capital assets is not applicable for governmental activities in accordance with GASB Statement No. 37, *Basic Financial Statements - and Management Discussion and Analysis - for State and Local Governments: Omnibus*. For proprietary fund types and trust funds with measurement focus on income determination or capital maintenance, the net amount of interest cost for qualifying assets is capitalized.

The schedule on the following pages presents the composition of the state's capital assets, adjustments, reclassifications, additions and deletions during fiscal 2007. The adjustment column includes assets that were not previously reported, accounting errors and other changes. The reclassifications column shows completed construction projects and transfers of capital assets between agencies. The additions column includes current year purchases and depreciation. The deletions column shows assets removed during the current year.

# Capital Asset Activity

For the Fiscal Year Ended August 31, 2007 (Amounts in Thousands)

| | PRIMARY GOVERNMENT | | | | | |
|---|---|---|---|---|---|---|
| | Balance 9/1/06 | Adjustments | Reclassifications | Additions | Deletions | Balance 8/31/07 |
| **GOVERNMENTAL ACTIVITIES** | | | | | | |
| **Nondepreciable Assets** | | | | | | |
| Land and Land Improvements | $ 6,799,132 | $ (45) | $ 1,065 | $ 500,774 | $ (22,682) | $ 7,278,244 |
| Infrastructure | 38,817,170 | (18,693) | 2,559,578 | | | 41,358,055 |
| Construction in Progress | 4,020,789 | (18,126) | (3,065,798) | 3,686,923 | | 4,623,788 |
| Other Capital Assets | 181,140 | | | 58 | | 181,198 |
| Total Nondepreciable Assets | 49,818,231 | (36,864) | (505,155) | 4,187,755 | (22,682) | 53,441,285 |
| Depreciable Assets | | | | | | |
| Buildings and Building Improvements | 5,111,831 | (252) | 67,176 | 9,710 | (5,919) | 5,182,546 |
| Infrastructure | 15,693,196 | 18,693 | 422,251 | 1,399 | (27,037) | 16,108,502 |
| Facilities and Other Improvements | 193,040 | | 7,176 | 574 | (834) | 199,956 |
| Furniture and Equipment | 1,077,114 | (11,634) | 2,336 | 82,413 | (60,350) | 1,089,879 |
| Vehicles, Boats and Aircraft | 913,130 | 63 | (123) | 85,655 | (57,868) | 940,857 |
| Other Capital Assets | 89,222 | (14) | 6,343 | 3,216 | (1,717) | 97,050 |
| Total Depreciable Assets at Historical Cost | 23,077,533 | 6,856 | 505,159 | 182,967 | (153,725) | 23,618,790 |
| Less Accumulated Depreciation for: | | | | | | |
| Buildings and Building Improvements | (2,482,452) | 250 | 1 | (161,550) | 4,115 | (2,639,636) |
| Infrastructure | (8,583,093) | (669) | | (509,658) | 24,504 | (9,068,916) |
| Facilities and Other Improvements | (109,489) | 57 | | (7,171) | 764 | (115,839) |
| Furniture and Equipment | (813,524) | 938 | 2 | (77,279) | 55,106 | (834,757) |
| Vehicles, Boats and Aircraft | (546,433) | (113) | 195 | (55,383) | 49,975 | (551,759) |
| Other Capital Assets | (42,761) | | (1) | (4,794) | 1,114 | (46,442) |
| Total Accumulated Depreciation* | (12,577,752) | 463 | 197 | (815,835) | 135,578 | (13,257,349) |
| Depreciable Assets, Net | 10,499,781 | 7,319 | 505,356 | (632,868) | (18,147) | 10,361,441 |
| Governmental Activities Capital Assets, Net | $ 60,318,012 | $ (29,545) | $ 201 | $ 3,554,887 | $ (40,829) | $ 63,802,726 |

* Depreciation expense was charged to Governmental Activities as follows:

| | |
|---|---|
| General Government | $ 47,894 |
| Education | 5,206 |
| Employee Benefits | 1 |
| Health and Human Services | 38,252 |
| Public Safety and Corrections | 145,796 |
| Transportation | 552,531 |
| Natural Resources and Recreation | 23,437 |
| Regulatory Services | 2,718 |
| Total Governmental Activities Depreciation Expense | $ 815,835 |

*Concluded on the following page*

# Capital Asset Activity (concluded)

For the Fiscal Year Ended August 31, 2007 (Amounts in Thousands)

| | Balance 9/1/06 | Adjustments | Reclassifications | Additions | Deletions | Balance 8/31/07 |
|---|---|---|---|---|---|---|
| **BUSINESS-TYPE ACTIVITIES** | | | | | | |
| **Nondepreciable Assets** | | | | | | |
| Land and Land Improvements | $ 1,145,692 | $ 1,598 | $ 2,892 | $ 126,549 | $ (2,276) | $ 1,274,455 |
| Construction in Progress | 3,419,532 | (31,464) | (2,842,860) | 1,653,128 | (157,279) | 2,041,057 |
| Infrastructure | | | 1,073,997 | 159,844 | | 1,233,841 |
| Other Capital Assets | 315,725 | (22) | 21 | 11,445 | (428) | 326,741 |
| Total Nondepreciable Assets | 4,880,949 | (29,888) | (1,765,950) | 1,950,966 | (159,983) | 4,876,094 |
| **Depreciable Assets** | | | | | | |
| Buildings and Building Improvements | 13,834,209 | 15,724 | 1,146,120 | 162,792 | (29,146) | 15,129,699 |
| Infrastructure | 664,369 | (655) | 400,865 | 1,273 | (4,208) | 1,061,644 |
| Facilities and Other Improvements | 960,305 | (15,839) | 131,725 | 8,725 | (532) | 1,084,384 |
| Furniture and Equipment | 3,316,430 | (6,093) | 73,464 | 362,560 | (167,390) | 3,578,971 |
| Vehicles, Boats and Aircraft | 184,197 | (236) | 439 | 13,415 | (9,499) | 188,316 |
| Other Capital Assets | 1,125,874 | (1,201) | 13,168 | 82,295 | (5,419) | 1,214,717 |
| Total Depreciable Assets at Historical Cost | 20,085,384 | (8,300) | 1,765,781 | 631,060 | (216,194) | 22,257,731 |
| Less Accumulated Depreciation for: | | | | | | |
| Buildings and Building Improvements | (6,089,136) | (8,166) | | (504,556) | 17,315 | (6,584,543) |
| Infrastructure | (367,762) | (92) | | (27,519) | 8 | (395,365) |
| Facilities and Other Improvements | (438,429) | 4,108 | | (37,120) | 291 | (471,150) |
| Furniture and Equipment | (2,143,034) | 3,161 | 44 | (333,274) | 145,139 | (2,327,964) |
| Vehicles, Boats and Aircraft | (133,433) | 319 | (77) | (13,786) | 8,690 | (138,287) |
| Other Capital Assets | (680,598) | 374 | 1 | (58,864) | 5,232 | (733,855) |
| Total Accumulated Depreciation** | (9,852,392) | (296) | (32) | (975,119) | 176,675 | (10,651,164) |
| Depreciable Assets, Net | 10,232,992 | (8,596) | 1,765,749 | (344,059) | (39,519) | 11,606,567 |
| Business-Type Activities Capital Assets, Net | $ 15,113,941 | $ (38,484) | $ (201) | $ 1,606,907 | $ (199,502) | $ 16,482,661 |
| **COMPONENT UNITS** | | | | | | |
| **Nondepreciable Assets** | | | | | | |
| Land and Land Improvements | $ 3,600 | $ | $ | $ | $ (131) | $ 3,469 |
| Construction in Progress | 94 | | (959) | 1,516 | | 651 |
| Total Nondepreciable Assets | 3,694 | 0 | (959) | 1,516 | (131) | 4,120 |
| **Depreciable Assets** | | | | | | |
| Buildings and Building Improvements | 35,693 | | | 4,099 | | 39,792 |
| Facilities and Other Improvements | 370 | | | | | 370 |
| Furniture and Equipment | 28,674 | | 959 | 2,577 | (205) | 32,005 |
| Vehicles, Boats and Aircraft | 21,349 | | | 6,148 | (4,339) | 23,158 |
| Other Capital Assets | 3 | | | | | 3 |
| Total Depreciable Assets at Historical Cost | 86,089 | 0 | 959 | 12,824 | (4,544) | 95,328 |
| Less Accumulated Depreciation for: | | | | | | |
| Buildings and Building Improvements | (7,713) | | | (847) | | (8,560) |
| Facilities and Other Improvements | (279) | | | | 25 | (254) |
| Furniture and Equipment | (14,884) | (4,289) | | (3,461) | 466 | (22,168) |
| Vehicles, Boats and Aircraft | (16,121) | | | (3,399) | 3,646 | (15,874) |
| Other Capital Assets | (4,289) | 4,289 | | | | |
| Total Accumulated Depreciation | (43,286) | 0 | 0 | (7,707) | 4,137 | (46,856) |
| Depreciable Assets, Net | 42,803 | 0 | 959 | 5,117 | (407) | 48,472 |
| Component Units Capital Assets, Net | $ 46,497 | $ 0 | $ 0 | $ 6,633 | $ (538) | $ 52,592 |

** Depreciation expense was charged to business-type activities as follows:

| | |
|---|---|
| Colleges and Universities | $ 963,213 |
| Veterans Land Board Loan Program Funds | 3,221 |
| Other Business-Type Activities | 8,685 |
| Total Business-Type Activities Depreciation Expense | $ 975,119 |

# NOTE 3
# Deposits, Investments and Repurchase Agreements

## LEGAL AND CONTRACTUAL PROVISIONS

### Authority for Investments

All monies in funds established in the Treasury Operations Division - Comptroller's office (Treasury) by the state Constitution or by an act of the Legislature are pooled for investment purposes. State statutes authorize the Treasury to invest state funds in fully collateralized time deposits, direct security repurchase agreements, reverse repurchase agreements, obligations of the United States, obligations of various federal credit organizations, bankers' acceptances, commercial paper and contracts written by the Comptroller which are commonly known as covered call options.

The Treasury obtains direct access to the services of the Federal Reserve System through the Texas Treasury Safekeeping Trust Company (Trust Company). The Federal Reserve Bank requires that the Trust Company maintain a positive cash balance in the account during and at the end of the day. The Trust Company met those requirements throughout fiscal 2007. The Trust Company safekeeps U.S. Government securities in book-entry form for the major investment funds of the state, safekeeps collateral pledged to secure deposits of the Treasury in financial institutions and acts as trustee for other public bodies to hold and manage funds on their behalf.

Certain state agencies, as well as colleges and universities, are authorized to invest funds not deposited with the Treasury. Three of the four largest investing agencies; the Teacher Retirement System (TRS), the Texas Education Agency (TEA) and the Employees Retirement System (ERS) make investments following the "prudent person rule." The University of Texas System (UT) and TRS comply with the "prudent investor rule" when making investments. Authorized investments include equities, fixed income obligations, cash equivalents and alternative investments.

### Collateralization

State law requires that all Treasury funds deposited in financial institutions above the amounts insured by the Federal Deposit Insurance Corporation be fully collateralized by pledging, to the Treasury, securities valued at market excluding accrued interest. Generally, the list of eligible securities includes all United States Treasury obligations, most agency obligations and securities issued by state agencies and political subdivisions within the state. All securities pledged to the Treasury must be held by a third-party bank doing business in the state through a main office or one or more branches, any Federal Reserve Bank, the Trust Company, any Federal Home Loan Bank or in the vault of the Treasury. During fiscal 2007 no depository holding state funds failed.

State agencies and institutions of higher education, with deposits of public funds which are not managed by the Treasury, are required to secure deposits through collateral pledged by depository banks and savings and loans. Eligible collateral securities are prescribed by state law, however, retirement systems are exempt by statute from this requirement.

### External Investment Pool

The state reports the Texas Government Investment Pool (TexPool) trust fund, as an external investment trust fund. A separate report for TexPool can be obtained from the Trust Company.

### Deposits

As of Aug. 31, 2007, the carrying amount of deposits for governmental and business-type activities was $967.2 million, for fiduciary funds was $268.6 million and for discretely presented component units was $35 million. These amounts consist of all cash in local banks and a portion of short-term investments. These amounts are included on the combined statement of net assets as part of the "Cash and Cash Equivalents," "Securities Lending Collateral," and "Investments" accounts. As of Aug. 31, 2007, the total bank balance for governmental and business-type activities was $1 billion, for fiduciary funds was $267.5 million and for discretely presented component units was $35.1 million.

***Custodial Credit Risk:*** Custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, the state will not be able to recover

deposits or will not be able to recover collateral securities that are in the possession of an outside party. The state does not have a deposit policy for custodial credit risk. The state's securities lending program is subject to custodial credit risk. This type of risk is inherent to the securities lending programs. Bank balances were exposed to custodial credit risk as follows.

## Bank Balances Exposed to Custodial Credit Risk

August 31, 2007 (Amounts in Thousands)

| | Uninsured and Uncollateralized | Uninsured and Collateralized with Securities Held by the Pledging Financial Institution |
|---|---|---|
| **GOVERNMENTAL ACTIVITIES** | | |
| Permanent School Fund | $ 4,382 | $ |
| Other Nonmajor Funds | 503 | |
| Total Governmental Activities | 4,885 | 0 |
| **BUSINESS-TYPE ACTIVITIES** | | |
| Colleges and Universities | 1,973 | 27,400 |
| Total Business-Type Activities | 1,973 | 27,400 |
| Total Governmental and Business-Type Activities | $ 6,858 | $27,400 |
| **FIDUCIARY** | $185,565 | $50,803 |
| **COMPONENT UNITS** | $ 1,420 | $ 0 |

***Foreign Currency Risk:*** Foreign currency risk for bank balances is the risk that changes in exchange rates will adversely affect the deposit. The state does not have a formal deposit policy related to foreign currency. Foreign currency deposits are intended for settlement of pending international investment trades. The exposure to foreign currency risk for bank balances at Aug. 31, 2007, is as follows.

## Bank Balances Exposed to Foreign Currency Risk

August 31, 2007 (Amounts in Thousands)

| | Governmental and Business-Type Activities | Pension and Other Employee Benefit Trust Funds |
|---|---|---|
| Australian Dollar | $ 206 | $ 3,546 |
| Brazilian Real | | 374 |
| Canadian Dollar | 139 | 698 |
| Chilean Peso | 1,441 | |
| Euro | 22 | 47,111 |
| Hong Kong Dollar | 36 | 193 |
| Indian Rupee | | 68 |
| Indonesian Rupiah | | 1,523 |
| Japanese Yen | 13 | 11,124 |
| Malaysian Ringgit | 14 | 1,120 |
| New Taiwan Dollar | 732 | 96,072 |
| New Turkish Lira | | (475) * |
| Norwegian Krone | 47 | 360 |
| Philippine Peso | | 100 |
| Pound Sterling | 1,448 | 19,249 |
| Qatar Riyal | 379 | |
| Singapore Dollar | 247 | 1,414 |
| South African Rand | 501 | 416 |
| South Korean Won | | 129 |
| Swedish Krona | | 149 |
| Swiss Franc | 53 | 164 |
| Thai Baht | | 2,210 |
| Total | $ 5,278 | $185,545 |

* Balance was repatriated to the U.S. Dollar cash account held at the custodian bank.

## Investments

The fair value of the state's investments is determined from published market prices, quotations from major investment brokers or independent pricing services. In general, the fair value of fixed income securities is based on yields currently available on comparable securities of issuers with similar credit ratings or are valued based on prices from fixed income pricing services or external broker quotes. The changes in the fair value of investments are reported as revenue in the operating statements.

Where no readily ascertainable market value exists (including private equity), fair values can be determined in consultation with investment advisors and Master Trust Custodians or based on the capital account balance at the closest available reporting period, as communicated by the general partner, adjusted for subsequent contributions, distributions, management fees and reserves.

Investments in money market investments are reported at amortized cost which approximates market value. Participating interest-earning investment contracts that have a remaining maturity at time of purchase of one year or less may also be reported at amortized cost, provided that the fair value of those investments is not significantly affected by the impairment of the credit standing of the issuer or by other factors.

The state's investments at Aug. 31, 2007, are as follows.

### Investment Fair Value

August 31, 2007 (Amounts in Thousands)

| | Governmental and Business-Type Activities | Fiduciary | Component Units |
|---|---|---|---|
| U.S. Treasury | $ 2,108,792 | $ 8,361,530 | $ 196,392 |
| U.S. Treasury Strips | 78,980 | 31,712 | |
| U.S. Treasury TIPS | 1,004,089 | 608,607 | |
| U.S. Government Agency | 18,858,138 | 15,649,700 | 707,585 |
| Corporate Obligations | 2,173,458 | 9,983,609 | |
| Corporate Asset and Mortgage Back | 1,334,629 | 17,509,787 | |
| Corporate Equity | 17,296,454 | 65,157,246 | |
| International Obligations | 595,934 | 2,737,358 | 22 |
| International Equity | 6,804,148 | 21,113,808 | |
| International Other Commingled Funds | 956,564 | 414,803 | |
| Repurchase Agreements | 3,375,128 | 15,765,642 | 98,125 |
| Fixed Income and Bond Mutual Fund | 5,557,939 | 453,640 | 11,812 |
| Other Commingled Funds | 7,568,084 | 1,926,978 | 4,113 |
| Commercial Paper | 3,706,612 | 2,738,573 | 87,377 |
| Securities Lending Collateral Investment Pool | 7,437,518 | 6,118,447 | |
| Real Estate | 3,088,606 | | |
| Alternative Investments | 8,499,656 | 8,853,398 | |
| Other Investments | 3,351,248 | 10,326,462 | 120,493 |
| Total Investments | $ 93,795,977 | $187,751,300 | $ 1,225,919 |

***Custodial Credit Risk:*** Custodial credit risk for investments is the risk that, in the event of the failure of the counterparty, the state will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The state does not have an investment policy for custodial credit risk. Consistent with the state's securities lending program, underlying securities on loans are subject to custodial credit risk.

At Aug. 31, 2007, the state's investments were exposed to custodial credit risk as follows.

## Investments Exposed to Custodial Credit Risk

August 31, 2007 (Amounts in Thousands)

| | Fair Value that is Uninsured and Unregistered with Securities Held by the Counterparty | Fair Value that is Uninsured and Unregistered with Securities Held by the Counterparty's Trust Department or Agent But Not in the State's Name |
|---|---|---|
| **GOVERNMENTAL ACTIVITIES** | | |
| Permanent School Fund | | |
| Corporate Obligations | $ | $ 450,258 |
| Corporate Asset and Mortgage Back | | 765,495 |
| Repurchase Agreements | | 1,037,956 |
| Commercial Paper | | 1,526,011 |
| Other Investments | | 1,342,211 |
| Other Nonmajor Governmental Funds | | |
| Corporate Equity | | 11,117 |
| Total Governmental Activities | 0 | 5,133,048 |
| **BUSINESS-TYPE ACTIVITIES** | | |
| Colleges and Universities | | |
| U.S. Treasury | | 3,500 |
| U.S. Government Agency | 1,982 | |
| Other Nonmajor Enterprise Funds | | |
| U.S. Treasury | | 31,845 |
| U.S. Government Agency | | 7,937 |
| Total Business-Type Activities | 1,982 | 43,282 |
| Total Governmental and Business-Type Activities | $ 1,982 | $5,176,330 |
| **FIDUCIARY** | | |
| Pension and Other Employee Benefit Trust Funds | | |
| U.S. Treasury | | 122,665 |
| U.S. Treasury TIPS | | 25,025 |
| U.S. Government Agency | | 6,547 |
| Corporate Obligations | | 3,108 |
| Total Fiduciary | $ 0 | $ 157,345 |
| **COMPONENT UNITS** | | |
| U.S. Treasury | 9,224 | |
| Repurchase Agreements | 74,672 | |
| Total Component Units | $ 83,896 | $ 0 |

***Foreign Currency Risk:*** Foreign currency risk for investments is the risk that changes in exchange rates will adversely affect the investment. TRS, TEA, ERS and UT have exposure to investment foreign currency risk. TRS does not have a formal policy related to its investments in non-U.S. dollar equity securities. TRS' investment policy states that not more than 10 percent of the market value of the fixed income portfolio or 4 percent of the total fund, whichever is greater, may be invested in non-U.S. dollar fixed income securities. UT does not have a formal policy related to its investments in non-U.S. dollar equity securities. UT's investment policy limits investments in non-U.S. denominated bonds to 50 percent of its total fixed income exposure. TEA and ERS do not have an investment policy for managing foreign currency risk.

The state's exposure to foreign currency risk at Aug. 31, 2007, is as follows.

## Investments Exposed to Foreign Currency Risk

August 31, 2007 (Amounts in Thousands)

| | Governmental and Business-Type Activities | | | | Fiduciary | | |
|---|---|---|---|---|---|---|---|
| | International Obligations | International Equity | Alternative Investments | International Other Commingled Funds | International Obligations | International Equity | Alternative Investments |
| Argentine Peso | $ | $ 86 | $ | $ | $ | $ | $ |
| Australian Dollar | 32,548 | 297,062 | | 391 | | 945,528 | |
| Bermudan Dollar | | 29 | | | | | |
| Brazilian Real | | 101,323 | | | | 260,118 | |
| Bulgarian Lev | | 319 | | | | | |
| Canadian Dollar | 37,613 | 433,393 | | 3,769 | | 1,105,065 | |
| Cayman Islands Dollar | | 29 | | | | | |
| Chilean Peso | | 1,599 | | | | 35,452 | |
| Chinese Yuan | | 3,319 | | | | | |
| Colombian Peso | | 12 | | | | | |
| Czech Koruna | | 8,409 | | | | 15,382 | |
| Danish Krone | 8,633 | 45,181 | | 174 | | 179,107 | |
| Egyptian Pound | | 3,647 | | | | | |
| Euro | 240,354 | 1,661,048 | 12,219 | 284,345 | 220,847 | 5,914,763 | 728,368 |
| Hong Kong Dollar | | 258,343 | | 32 | | 802,807 | |
| Hungarian Forint | | 10,202 | | 4 | | 31,104 | |
| Indian Rupee | | 1,038 | | | | 157,382 | |
| Indonesian Rupiah | | 15,027 | | | | 42,888 | |
| Japanese Yen | 24,251 | 1,265,107 | | 14,392 | 199,505 | 3,439,774 | |
| Jordanian Dinar | | 5 | | | | | |
| Malaysian Ringgit | 9,611 | 22,930 | | | | 88,582 | |
| Mexican Peso | | 51,581 | | 29 | | 79,780 | |
| Moroccan Dirham | | 15 | | | | | |
| New Israel Shekel | | 9,061 | | | | 10,923 | |
| New Taiwan Dollar | | 87,441 | | 992 | | 302,396 | |
| New Turkish Lira | | 14,911 | | | | 46,419 | |
| New Zealand Dollar | 6,108 | 8,596 | | 610 | | 5,162 | |
| Norwegian Krone | 6,204 | 67,496 | | 556 | | 197,157 | |
| Pakistani Rupee | | 9 | | | | | |
| Peruvian Nuevo Sol | | 30 | | | | | |
| Philippine Peso | | 6,398 | | | | 6,202 | |
| Polish Zloty | 20,758 | 17,243 | | 269 | | 32,368 | |
| Pound Sterling | 47,968 | 1,094,222 | | 20,144 | | 3,601,090 | 17,812 |
| Romanian Leu | | 702 | | | | | |
| Russian Ruble | | 15,738 | | | | | |
| Singapore Dollar | 14,275 | 54,819 | | 299 | | 203,964 | |
| South African Rand | 9,288 | 67,574 | | 494 | | 207,694 | |
| South Korean Won | | 149,661 | | | | 425,664 | |
| Swedish Krona | 9,374 | 121,303 | | 511 | | 366,528 | |
| Swiss Franc | | 304,838 | | 799 | | 1,002,808 | |
| Thai Baht | | 13,639 | | | | 65,538 | |
| Total | $466,985 | $6,213,385 | $12,219 | $327,810 | $420,352 | $19,571,645 | $746,180 |

***Credit Risk:*** Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. This is measured by the assignment of a rating by a nationally recognized statistical rating organization (NRSRO).

TRS' investment policy states that, except for investments in board-approved high yield bond funds and certain commercial mortgage-backed security (CMBS) and asset-backed security (ABS) instruments, each security must be rated at least speculative grade (the lowest notch of the single B category) by at least one NRSRO. Except for certain CMBS and ABS instruments, unrated fixed income securities may only be purchased if those securities have investment grade characteristics and would otherwise meet the rating quality requirements defined in the investment policy if rated. No NRSRO rating is required for fixed income investments issued, insured, guaranteed by, supported by or based on the credit of the U.S. Government or any U.S. Government agency, department or government sponsored enterprise. Except for board-approved high yield fund investments, the following quality rating exposure limits apply to the fixed income portfolio: 100 percent portfolio limit for investment grade, 10 percent portfolio limit for speculative grade and 1 percent portfolio limit for nonrated and/or equity classes of CMBS and ABS instruments.

TEA's investment policy requires investments in fixed income securities be rated at least BBB and short-term money market instruments must be rated at least A-1 by Standard & Poor's.

ERS' general investment policies require that noncash interest paying securities in the high yield bond portfolios not exceed 15 percent of the market value of the portfolio and that investments in money market funds represent no more than 5 percent of each individual fund.

UT's investment policies limit investments in U.S. domestic bonds and non-dollar denominated bond investments to those that are rated investment grade, BBB- or better by Standard & Poor's. This requirement does not apply to investment managers that are authorized by the terms of an investment advisory agreement to invest in below investment grade bonds.

At Aug. 31, 2007, the state's credit quality distribution for securities with credit risk exposure was as follows.

# Investments Exposed to Credit Risk

August 31, 2007 (Amounts in Thousands)

| | AAA | AA | A | BBB | BB | B | CCC | C | D | NR |
|---|---|---|---|---|---|---|---|---|---|---|
| **GOVERNMENTAL ACTIVITIES** | | | | | | | | | | |
| U.S. Government Agency | $ 7,798,639 | $ 17,677 | $ | $ | $ | $ | $ | $ | $ | $5,446,671 |
| Corporate Obligations | 507,418 | 1,348,839 | 543,203 | 305,651 | 24,672 | 31,704 | 19,848 | | | 40,535 |
| Corporate Asset and Mortgage Back | 1,584,951 | | | | | | | | | 14,591 |
| International Obligations | | | 20,192 | 346 | 2,801 | 478 | | | | |
| Repurchase Agreements | 1,810,921 | 33,551 | | | | | | | | 1,037,956 |
| Alternative Investments | | | | | | | | | | |
| Other Investments | | 91,499 | | | | | | | | 25,386 |
| Total Governmental Activities | $11,701,929 | $1,491,566 | $ 563,395 | $ 305,997 | $ 27,473 | $ 32,182 | $ 19,848 | $ 0 | $ 0 | $6,565,139 |
| **BUSINESS-TYPE ACTIVITIES** | | | | | | | | | | |
| U.S. Government Agency | $ 4,805,741 | $ 200 | $ | $ | $ | $ | $ | $ | $ | $ 214,155 |
| Corporate Obligations | 81,919 | 265,263 | 307,491 | 200,325 | 99,933 | 56,007 | 2,949 | 4 | | 48,090 |
| Corporate Asset and Mortgage Back | 373,784 | 15,952 | 7,271 | 834 | 1,762 | | | | | 10,111 |
| International Obligations | 335,495 | 29,291 | 88,620 | 59,099 | 8,354 | 1,550 | | | | 47,962 |
| Repurchase Agreements | 1,090,251 | 117,289 | | | | | | | | 577,582 |
| Alternative Investments | 35,326 | | | | | | | | | 85,087 |
| Other Investments | 152,104 | 121,860 | 266,038 | 1,387 | 13,714 | 18,834 | | | | 590,760 |
| Total Business-Type Activities | $ 6,874,620 | $ 549,855 | $ 669,420 | $ 261,645 | $ 123,763 | $ 76,391 | $ 2,949 | $ 4 | $ 0 | $1,573,747 |
| **GOVERNMENTAL AND BUSINESS-TYPE ACTIVITIES** | | | | | | | | | | |
| U.S. Government Agency | $12,604,380 | $ 17,877 | $ | $ | $ | $ | $ | $ | $ | $5,660,826 |
| Corporate Obligations | 589,337 | 1,614,102 | 850,694 | 505,976 | 124,605 | 87,711 | 22,797 | 4 | | 88,625 |
| Corporate Asset and Mortgage Back | 1,958,735 | 15,952 | 7,271 | 834 | 1,762 | | | | | 24,702 |
| International Obligations | 335,495 | 29,291 | 108,812 | 59,445 | 11,155 | 2,028 | | | | 47,962 |
| Repurchase Agreements | 2,901,172 | 150,840 | | | | | | | | 1,615,538 |
| Alternative Investments | 35,326 | | | | | | | | | 85,087 |
| Other Investments | 152,104 | 213,359 | 266,038 | 1,387 | 13,714 | 18,834 | | | | 616,146 |
| Total Governmental and Business-Type Activities | $18,576,549 | $2,041,421 | $ 1,232,815 | $ 567,642 | $ 151,236 | $ 108,573 | $ 22,797 | $ 4 | $ 0 | $8,138,886 |
| **FIDUCIARY** | | | | | | | | | | |
| U.S. Government Agency | $16,949,164 | $ 3 | $ 114,971 | $ | $ | $ | $ | $ | $ | $ 321,336 |
| Corporate Obligations | 1,179,536 | 2,684,752 | 2,054,469 | 1,753,701 | 945,977 | 1,196,728 | 244,120 | | 3,674 | 140,785 |
| Corporate Asset and Mortgage Back | 10,266,980 | 148,736 | 3,948,011 | 45,087 | 15,653 | 8,357 | 8,345 | | | 586,883 |
| International Obligations | 516,406 | 383,993 | 808,754 | 682,489 | 69,761 | 36,988 | 1,118 | | | 237,848 |
| Repurchase Agreements | 14,020,863 | 3,840 | 931,431 | | | | | | | |
| Alternative Investments | | | | | | | | | | |
| Other Investments | 97,897 | 2,167,535 | 7,028,982 | | | | | | | 48,341 |
| Total Fiduciary | $43,030,846 | $5,388,859 | $14,886,618 | $2,481,277 | $1,031,391 | $1,242,073 | $253,583 | $ 0 | $3,674 | $1,335,193 |
| **COMPONENT UNITS** | | | | | | | | | | |
| U.S. Government Agency | $ 540,411 | $ | $ | $ | $ | $ | $ | $ | $ | $ 18,395 |
| Corporate Obligations | | | | | | | | | | |
| Corporate Asset and Mortgage Back | | | | | | | | | | |
| International Obligations | | | 22 | | | | | | | |
| Repurchase Agreements | 6,777 | 37 | | | | | | | | 16,173 |
| Alternative Investments | | | | | | | | | | |
| Other Investments | | | | | | | | | | |
| Total Component Units | $ 547,188 | $ 37 | $ 22 | $ 0 | $ 0 | $ 0 | $ 0 | $ 0 | $ 0 | $ 34,568 |

*Concluded on the following page*

## Investments Exposed to Credit Risk (concluded)

August 31, 2007 (Amounts in Thousands)

| | AAAf | Aaf | NR |
|---|---|---|---|
| **GOVERNMENTAL ACTIVITIES** | | | |
| Fixed Income and Bond Mutual Fund | $1,175,021 | $ 0 | $ 146,091 |
| **BUSINESS-TYPE ACTIVITIES** | | | |
| Fixed Income and Bond Mutual Fund | $3,803,716 | $ 78,117 | $ 387,020 |
| **GOVERNMENTAL AND BUSINESS-TYPE ACTIVITIES** | | | |
| Fixed Income and Bond Mutual Fund | $4,978,737 | $ 78,117 | $ 533,111 |
| **FIDUCIARY** | | | |
| Fixed Income and Bond Mutual Fund | $ 134,496 | $ 0 | $ 297,286 |
| **COMPONENT UNITS** | | | |
| Fixed Income and Bond Mutual Fund | $ 11,812 | $ 0 | $ 0 |

| | A-1 | A-2 | NR |
|---|---|---|---|
| **GOVERNMENTAL AND BUSINESS-TYPE ACTIVITIES** | | | |
| Commercial Paper | $5,083,943 | $ 4,133 | $ 320,747 |
| **FIDUCIARY** | | | |
| Commercial Paper | $2,717,901 | $ 0 | $ 0 |
| **COMPONENT UNITS** | | | |
| Commercial Paper | $ 87,378 | $ 0 | $ 0 |

***Concentration of Credit Risk:*** Concentration of credit risk is the risk of loss attributed to the magnitude of the state's investment in a single issuer. At Aug. 31, 2007, more than 5 percent of investments held by governmental activities were in securities issued by the Federal Home Loan Bank, the Federal National Mortgage Association and the Federal Home Loan Mortgage Corporation. These holdings were the result of the governmental activities' participation in the Treasury's internal investment pool. The Treasury places no limit on the amount it may invest in any one issuer.

***Interest Rate Risk:*** Interest rate risk is the risk that changes in interest rates of debt investments will adversely affect the fair value of an investment. TEA and TRS use the effective weighted duration method to identify and manage interest rate risk. UT and ERS use the modified duration method.

Duration is a measure of the price sensitivity of a debt investment to changes arising from movements in interest rates. Duration is the weighted average maturity of an instrument's cash flows, where the present value of the cash flows serves as the weights. The duration of an instrument can be calculated by first multiplying the time until receipt of cash flow by the ratio of the present value of that cash flow to the instrument's total present value. The sum of these weighted time periods is the duration of the instrument. Effective duration extends this analysis to incorporate an option adjusted measure of an instrument's sensitivity to changes in interest rates. Modified duration estimates the sensitivity of the fund's investments to changes in interest rates.

The investment policy of TEA mandates the average duration of the fixed income portfolio be consistent with the Lehman Bros. Aggregate Index's duration. The Lehman Bros. Aggregate Index duration as of Aug. 31, 2007, was 4.8 percent. The maximum maturity for invested securities lending collateral is 397 days except for bank time deposits which is 60 days, bankers' acceptances which is 45 days and reverse repurchase agreements which is 180 days. The maximum weighted average maturity of the entire collateral portfolio must be 180 days. The maximum weighted average interest rate exposure of the entire collateral portfolio must be 60 days. Under TRS' investment policy, its portfolio will generally be structured to have an effective duration range

of plus or minus two years of the Lehman U.S. Aggregate Bond Index. UT and ERS do not have a formal investment policy with respect to overall modified duration.

TEA's investments by investment type, fair value and the effective weighted duration rate as of Aug. 31, 2007, are as follows.

## Investments Exposed to Interest Rate Risk

August 31, 2007

| TEA Investment Type | Fair Value (in Thousands) | Effective Weighted Duration Rate |
|---|---|---|
| U.S. Government and U.S. Government Agency Obligations | $2,257,810 | 5.00 |
| U.S. Government Mortgage Backed Obligations | 947,120 | 3.82 |
| U.S. Government Agency Mortgage Obligations | 912,761 | 4.61 |
| Asset Backed Obligations | 42,530 | 3.40 |
| Commercial Mortgage Backed Securities | 312,599 | 5.93 |
| Corporate Backed Commercial Mortgage Obligations | 469,915 | 3.63 |
| Corporate Obligations | 1,031,721 | 5.58 |
| U.S. Treasury Inflation Index Obligation | 57,970 | 1.58 |
| U.S. Private Placements - Corporate | 63,851 | 0.49 |
| U.S. Private Placements - Government | 24,802 | 7.38 |
| Total Fixed Income | $6,121,079 | 4.72 |

The following provides information about TEA's interest rate risks and maturities associated with its invested securities lending collateral by investment type.

## Invested Securities Lending Collateral Exposed to Interest Rate Risk

August 31, 2007 (Amounts in Thousands)

| TEA Investment Type | Fair Value | Investment Maturities in Less Than One Year |
|---|---|---|
| Certificates of Deposit | $ 91,499 | $ 91,499 |
| Commercial Paper | 1,526,011 | 1,526,011 |
| Asset Backed Floating Rate Notes | 765,495 | 765,495 |
| Bank Floating Rate Notes | 1,250,712 | 1,250,712 |
| Corporate Floating Rate Notes | 364,258 | 364,258 |
| Corporate Interest Bearing Notes | 86,000 | 86,000 |
| Repurchase Agreements | 1,037,956 | 1,037,956 |
| Total | $ 5,121,931 | $ 5,121,931 |

TRS' investments by investment type, fair value and the effective weighted duration rate as of Aug. 31, 2007, are as follows. The effective weighted duration rate is an option-adjusted measure of a bond's (or portfolio's) sensitivity to changes in interest rates. It is calculated as the average percentage change in a bond's value (price plus accrued interest) under shifts of the Treasury curve +/-100 basis points. It incorporates the effect of embedded options for corporate bonds and changes in prepayments for mortgage backed securities (including pass-throughs, CMOs and ARMs). The effective weighted duration calculation excludes the High Yield Limited Partnerships, which are pooled instruments and not debt securities.

## Investments Exposed to Interest Rate Risk

August 31, 2007

| TRS Investment Type | Fair Value (in Thousands) | Effective Weighted Duration Rate |
|---|---|---|
| U.S. Government Obligations | $ 7,420,015 | 7.06 |
| U.S. Government Agency Obligations | 10,186,011 | 4.51 |
| Asset and Mortgage Backed Obligations | 6,002,713 | 2.92 |
| Corporate Obligations | 4,524,970 | 5.45 |
| International Obligations | 2,307,584 | 5.24 |
| Total Interest Rate Risk Debt Securities | $30,441,293 | 5.01 |

ERS' investments by investment type, fair value and the modified duration rate as of Aug. 31, 2007, are as follows.

## Investments Exposed to Interest Rate Risk

August 31, 2007

| ERS Investment Type | Fair Value (Amounts in Thousands) | | Modified Duration | |
|---|---|---|---|---|
| | Fiduciary Fund | Proprietary Fund | Fiduciary Fund | Proprietary Fund |
| U.S. Treasury Securities | $ 718,648 | $ 86,706 | 8.23 | 6.79 |
| U.S. Treasury TIPS | 608,607 | | 11.60 | |
| U.S. Government Agency Obligations | 1,004,985 | 22,860 | 4.55 | 2.37 |
| Corporate Obligations | 2,755,417 | 87,980 | 5.37 | 2.49 |
| Corporate Asset and Mortgage Backed Securities | 3,131,422 | 112,837 | 4.58 | 4.75 |
| Derivatives | 599,338 | 430,861 | 5.71 | |
| Overall Interest Rate Risk Debt Securities | $8,818,417 | $ 741,244 | 4.86 | 1.78 |

UT's investments by investment type, fair value and the modified duration rate as of Aug. 31, 2007, are as follows.

## Investments Exposed to Interest Rate Risk

August 31, 2007

| UT Investment Type | Fair Value (In Thousands) | Modified Duration |
|---|---|---|
| **INVESTMENTS IN SECURITIES:** | | |
| U.S. Government Guaranteed: | | |
| U.S. Treasury Bonds and Notes | $ 296,312 | 7.20 |
| U.S. Treasury Strips | 11,295 | 4.05 |
| U.S. Treasury Bills | 22,685 | 0.04 |
| U.S. Treasury Inflation Protected | 946,118 | 8.73 |
| U.S. Agency Asset Backed | 18,643 | 6.82 |
| Total U.S. Government Guaranteed | 1,295,053 | 8.16 |
| U.S. Government Non-Guaranteed: | | |
| U.S. Agency | 70,908 | 1.38 |
| U.S. Agency Asset Backed | 1,355,526 | 5.03 |
| Total U.S. Government Non-Guaranteed | 1,426,434 | 4.85 |
| Total U.S. Government | 2,721,487 | 6.43 |
| Corporate Obligations: | | |
| Domestic | 553,277 | 3.86 |
| Commercial Paper | 176,199 | 0.13 |
| Foreign | 107,567 | 6.88 |
| Total Corporate Obligations | 837,043 | 3.46 |
| Foreign Government and Provincial Obligations | 234,352 | 5.45 |
| Other Debt Securities | 10,390 | 10.16 |
| Total Debt Securities | 244,742 | 5.65 |
| Other Investment Funds – Debt | 459,777 | 3.73 |
| Fixed Income Money Market Funds | 3,240,095 | 0.11 |
| Repurchase Agreements | 8,500 | |
| Certificates of Deposit | 25,603 | 0.94 |
| Total Investments in Securities | $7,537,247 | 3.16 |
| **DEPOSIT WITH BROKERS FOR DERIVATIVE CONTRACTS:** | | |
| U.S. Government Guaranteed: | | |
| U.S. Treasury Bills | $ 136,878 | 0.14 |
| U.S. Treasury Inflation Protected | | |
| Total U.S. Government Guaranteed | 136,878 | 0.14 |
| Cash | 6,372 | |
| Total Deposit with Brokers for Derivative Contracts | $ 143,250 | 0.13 |

### Reverse Repurchase Agreements

Investments in reverse repurchase agreements by the Treasury and the Trust Company are permitted by statute. A reverse repurchase agreement consists of a sale of securities by the state with a simultaneous agreement to repurchase them in the future at the same price plus a contract rate of interest. Sale proceeds are invested by the state in securities or repurchase agreements that mature at or almost at the same time as the reverse repurchase agreement. Proceeds from the matured securities are used to liquidate the agreement resulting in a matched position. With a matched position there is minimal market risk because the seller-borrower will hold the securities to maturity and liquidate them at face value. In the event of default on a reverse repurchase agreement, the Treasury would potentially suffer a loss. The loss occurs if the cash received does not exceed the fair value of the securities underlying reverse repurchase agreements. The amount of the loss would equal the difference between the fair value plus accrued interest of the underlying securities and the agreement price plus accrued interest. To

minimize the risk of default, all securities backing reverse repurchase agreements are held by the Federal Reserve Bank in the state's name.

The Treasury's aggregate amount of reverse repurchase agreement obligations at Aug. 31, 2007, was $106 million including accrued interest. The aggregate fair value of the securities underlying those agreements, including accrued interest, was $106.2 million. The credit exposure at fiscal year end was $134 thousand.

## Securities Lending

TRS, TEA, ERS, UT, the Trust Company, the Texas A&M University System (A&M), the General Land Office/ Veterans Land Board (GLO/VLB) and the Texas Prepaid Higher Education Tuition Board (TPHETB) participate in a securities lending program as authorized by state statute. Under this program, the governmental entities transfer securities to an independent broker or dealer in exchange for collateral in the form of cash, governmental securities or bank letters of credit. In addition, TEA may receive collateral in the form of other assets which it specifically agrees to with its lending agent and A&M may receive collateral in the form of fixed income securities and repurchase agreements. TRS, UT and GLO/VLB receive collateral equal to 102 percent of the value of domestic securities lent and 105 percent for international securities. TEA receives collateral in an amount of 102 percent of the fair value plus accrued income for domestic corporate securities and 105 percent of the fair value plus accrued income for foreign securities; except in the case of foreign securities denominated and payable in U.S. Dollars, the required percentage is 102 percent. ERS receives collateral of 100 percent of the value of securities lent plus accrued interest. A&M receives collateral of 100 percent of the value of the securities lent. The Trust Company receives collateral of 102 percent of the value of U.S. securities lent plus any accrued interest and 105 percent of the value of non-U.S. government securities plus any accrued interest. TPHETB receives collateral of 102 percent of the value of domestic securities lent plus accrued interest and 105 percent plus accrued interest for foreign securities. There is a simultaneous agreement to return the collateral for the same securities in the future.

The state's securities custodians are the security lending agents. The securities lending contracts do not allow the state to pledge or sell collateral securities unless the borrower defaults. For TRS, TEA, ERS, UT, GLO/VLB and TPHETB, the lending agents are required to indemnify the state if the borrowers fail to return the securities. For the Trust Company and A&M, the lending agent is not liable with respect to any losses except to the extent that such losses result from the lending agent's negligence, failure to live up to its contractual responsibilities or willful misconduct.

At year end there was no credit risk exposure to the state, because the amounts the state owed the borrowers exceeded the amounts the borrowers owed the state. For ERS, the relationship between the maturities of investments made with cash collateral generally matched the maturities of the loan agreements. For A&M, cash collateral received from the borrower is invested in a money market mutual fund with next day liquidity and repurchase agreements. TRS, the Trust Company, GLO/VLB and TPHETB loans are terminable at will. UT manages its investments to maintain an average maturity and overnight liquidity and TEA maturities are defined by the lending agreement. There were no significant violations of legal or contractual provisions, no borrower or lending agent default losses and no recoveries of prior period losses during the year.

The state's aggregate amount of securities out on loan to broker-dealers at Aug. 31, 2007, was $40.3 billion, of which TRS had $26.3 billion, TEA had $5.3 billion, ERS had $6.2 billion, UT had $1.7 billion, the Trust Company had $124.4 million, A&M had $283.8 million, GLO/VLB had $38 million and TPHETB had $324.4 million.

## Derivatives

Derivatives are financial instruments (securities or contracts) whose value is linked to or "derived" from changes in interest rates, currency rates and stock and commodity prices. Certain state agencies and colleges and universities were parties to various derivative financial instruments including derivative contracts, options and investments in commingled funds which are authorized to use derivatives and swaps.

At Aug. 31, 2007, the following derivatives were held and reported at fair value on the statement of net assets and the statement of fiduciary net assets.

| Type | Held By |
|---|---|
| Forward Contracts | TRS, A&M and UT |
| Futures Contracts | ERS, TEA and UT |
| Written Options | TRS and UT |
| Index Funds, Hedge Funds and Commingled Funds | UT |
| Swaps | UT |

Forward contracts are bought or sold when an international trade has been made. The contract is in the currency native to the security transactions for settlement date. Risks associated with such contracts include movement in the value of the foreign currency related to the U.S. dollar and the ability of the counterparty to perform.

Futures contracts are used to facilitate various trading strategies, primarily as a tool to increase or decrease market exposure to various asset classes.

Written options are used to alter the market (systematic) exposure without trading the underlying cash market securities and to hedge and control risks so that the actual risk/return profile is more closely aligned with the target risk/return profile. If a call option expires, the state realizes a gain to the extent of the premium received. If a call option is exercised, the difference between the proceeds of the sale plus the amount of the premium and the fair value of the security are realized as a gain or loss. If a call option is repurchased, the difference between the premium income received and the amount paid to close the option contract is realized as a gain or loss. If a put option is exercised, the premium reduces the cost basis of the securities purchased.

Index funds, hedge funds and commingled funds alter market exposure without trading the underlying cash market securities.

Swaps are entered into primarily to hedge and control interest rate risks.

## Note 4
## Short-Term Debt

On Aug. 22, 2006 (with an issue date of Aug. 31, 2006), $4.6 billion in the State of Texas Tax and Revenue Anticipation Notes, Series 2006, were sold to coordinate the cash flow of the state for the fiscal year ended Aug. 31, 2007. Issuance of these notes enhanced the state's ability to make timely payment of expenditures payable from the general revenue fund. The Series 2006 were repaid during fiscal 2007 and bore interest at 4.5 percent and were priced to yield 3.598 percent.

On Aug. 22, 2007, the Comptroller's office sold approximately $4.9 billion of the State of Texas Tax and Revenue Anticipation Notes, Series 2007, with an issue date of Sept. 4, 2007, and a maturity date of Aug. 28, 2008. The notes bear interest at 4.5 percent and were priced to yield 3.728 percent. They are not subject to redemption prior to maturity. On Aug. 21, 2007, good faith funds in the amount of $49 million were received. Short-term debt activity for the year ended Aug. 31, 2007, is as follows.

### Short-Term Debt
For the Fiscal Year Ended August 31, 2007 (Amounts in Thousands)

| | Beginning Balance 09/01/06 | Issued | Redeemed | Ending Balance 08/31/07 |
|---|---|---|---|---|
| Tax and Revenue Anticipation Notes | $4,600,000 | $ 0 | $4,600,000 | $ 0 |
| Commercial Paper | 88,850 | 170,000 | 100,850 | 158,000 |
| | $4,688,850 | $ 170,000 | $4,700,850 | $ 158,000 |

During fiscal 2007 the Texas Department of Transportation issued commercial paper under its short-term borrowing program. The commercial paper proceeds are being used to cover temporary funding short falls for capital expenditures.

# NOTE 5
# Long-Term Liabilities

The long-term liabilities activity for fiscal 2007 is shown in the table below.

## Long-Term Liabilities Activity

For the Fiscal Year Ended August 31, 2007 (Amounts in Thousands)

| | Beginning Balance 09/01/06 | Additions | Reductions | Ending Balance 08/31/07 | Amounts Due Within One Year | Amounts Due Thereafter |
|---|---|---|---|---|---|---|
| **GOVERNMENTAL ACTIVITIES** | | | | | | |
| Claims and Judgments | $ 207,154 | $ 46,281 | $ 46,467 | $ 206,968 | $ 70,379 | $ 136,589 |
| Capital Lease Obligations | 14,549 | | 3,989 | 10,560 | 1,425 | 9,135 |
| Employees' Compensable Leave | 666,527 | 691,196 | 635,193 | 722,530 | 425,016 | 297,514 |
| Notes and Loans Payable | 330,799 | 151,500 | 266,599 | 215,700 | 21,702 | 193,998 |
| General Obligation Bonds Payable | 4,478,891 | 2,602,277 | 324,275 | 6,756,893 | 300,083 | 6,456,810 |
| Revenue Bonds Payable | 1,152,483 | 982,333 | 104,077 | 2,030,739 | 111,655 | 1,919,084 |
| Governmental Activities Long-Term Liabilities | $ 6,850,403 | $ 4,473,587 | $ 1,380,600 | $ 9,943,390 | $ 930,260 | $ 9,013,130 |
| **BUSINESS-TYPE ACTIVITIES** | | | | | | |
| Claims and Judgments | $ 206,822 | $ 586,841 | $ 629,823 | $ 163,840 | $ 94,801 | $ 69,039 |
| Capital Lease Obligations | 12,089 | 3,621 | 2,131 | 13,579 | 2,554 | 11,025 |
| Employees' Compensable Leave | 547,509 | 148,209 | 115,535 | 580,183 | 283,023 | 297,160 |
| Notes and Loans Payable | 1,741,254 | 1,078,620 | 790,552 | 2,029,322 | 1,666,201 | 363,121 |
| General Obligation Bonds Payable | 2,738,685 | 233,251 | 196,469 | 2,775,467 | 110,226 | 2,665,241 |
| Revenue Bonds Payable | 12,378,384 | 2,429,312 | 2,503,338 | 12,304,358 | 582,702 | 11,721,656 |
| Liabilities Payable From Restricted Assets | 3,751,199 | 387,843 | 470,478 | 3,668,564 | 516,563 | 3,152,001 |
| Business-Type Activities Long-Term Liabilities | $ 21,375,942 | $ 4,867,697 | $ 4,708,326 | $ 21,535,313 | $ 3,256,070 | $ 18,279,243 |
| **COMPONENT UNITS** | | | | | | |
| Capital Lease Obligations | $ 317 | $ 24 | $ 191 | $ 150 | $ 120 | $ 30 |
| Employees' Compensable Leave | 4,574 | 2,580 | 2,402 | 4,752 | 3,202 | 1,550 |
| Notes and Loans Payable | 184,681 | 122,000 | 138,663 | 168,018 | 42,193 | 125,825 |
| Revenue Bonds Payable | 262,148 | 165,534 | 51,360 | 376,322 | 6,914 | 369,408 |
| Liabilities Payable From Restricted Assets | 217,139 | 38,593 | 26,641 | 229,091 | | 229,091 |
| Component Units Long-Term Liabilities | $ 668,859 | $ 328,731 | $ 219,257 | $ 778,333 | $ 52,429 | $ 725,904 |

Notes and loans payable consists of amounts used to purchase capital equipment. Other uses include the acquisition, construction and renovation of other capital assets, including the interim financing of higher education projects, software/database acquisition and development; refinancing of existing debt and the funding of agency specific missions such as economic development projects and pest eradication programs. Debt service requirements for notes and loans payable in the long-term liabilities are shown to the right and at the top of the following page.

General Obligation Bonds and Revenue Bonds are described in detail in Note 6.

## Notes and Loans Payable Debt Service Requirements Governmental Activities

(Amounts in Thousands)

| Year | Principal | Interest | Total |
|---|---|---|---|
| 2008 | $ 21,702 | $ 10,588 | $ 32,290 |
| 2009 | 20,629 | 9,450 | 30,079 |
| 2010 | 18,026 | 8,419 | 26,445 |
| 2011 | 14,546 | 7,517 | 22,063 |
| 2012 | 11,991 | 6,801 | 18,792 |
| 2013 - 2017 | 59,644 | 24,961 | 84,605 |
| 2018 - 2022 | 45,119 | 10,946 | 56,065 |
| 2023 - 2027 | 23,293 | 2,219 | 25,512 |
| 2028 - 2032 | 750 | 3 | 753 |
| Total Requirements | $ 215,700 | $ 80,904 | $ 296,604 |

## Notes and Loans Payable Debt Service Requirements Business-Type Activities

(Amounts in Thousands)

| Year | Principal | Interest | Total |
|---|---|---|---|
| 2008 | $1,666,201 | $ 54,519 | $1,720,720 |
| 2009 | 50,436 | 8,132 | 58,568 |
| 2010 | 8,083 | 30,561 | 38,644 |
| 2011 | 8,606 | 14,651 | 23,257 |
| 2012 | 8,662 | 14,244 | 22,906 |
| 2013 - 2017 | 56,383 | 64,510 | 120,893 |
| 2018 - 2022 | 43,253 | 52,055 | 95,308 |
| 2023 - 2027 | 54,967 | 41,559 | 96,526 |
| 2028 - 2032 | 17,511 | 31,773 | 49,284 |
| 2033 - 2037 | 35,288 | 25,246 | 60,534 |
| 2038 - 2042 | 68,424 | 11,587 | 80,011 |
| Total Requirements | 2,017,814 | 348,837 | 2,366,651 |
| Premium | 11,508 | | 11,508 |
| Total Requirements | $2,029,322 | $ 348,837 | $2,378,159 |

## Notes and Loans Payable Debt Service Requirements Component Units

(Amounts in Thousands)

| Year | Principal | Interest | Total |
|---|---|---|---|
| 2008 | $ 42,193 | $ 5,871 | $ 48,064 |
| 2009 | 19,344 | 5,095 | 24,439 |
| 2010 | 12,449 | 4,248 | 16,697 |
| 2011 | 27,162 | 3,706 | 30,868 |
| 2012 | 11,759 | 2,958 | 14,717 |
| 2013 - 2017 | 54,301 | 5,672 | 59,973 |
| 2018 - 2022 | 167 | 233 | 400 |
| 2023 - 2027 | 230 | 171 | 401 |
| 2028 - 2032 | 319 | 97 | 416 |
| 2033 - 2037 | 94 | 3 | 97 |
| Total Requirements | $ 168,018 | $ 28,054 | $ 196,072 |

Claims and judgments are payments on behalf of the state, its agencies and employees for various legal proceedings and claims. Tort claims are covered under the Texas Tort Claims Act. Numerous miscellaneous claims are covered under the Miscellaneous Claims Act for legal liabilities against the state for which no appropriation otherwise exists. Individual claims above $25,000 or numerous separate claims from the same individual or entity that in total exceed $25,000 must be approved by the Legislature before being paid.

Employees' compensable leave is the state's liability for all unused vacation and unpaid overtime accrued by employees, payable as severance pay under specified conditions. This obligation is paid only at the time of termination, usually from the same funding source(s) from which the employee's salary or wage compensation was paid.

Capital lease obligations are described in detail in Note 7.

Long-term liabilities that are associated with the acquisition of restricted assets or long-term liabilities that will be liquidated with restricted assets are classified as liabilities payable from restricted assets.

# Note 6
# Bonded Indebtedness

## DESCRIPTION OF BOND ISSUES

The State of Texas has 460 bond issues outstanding as of Aug. 31, 2007. During fiscal 2007 the state paid $403.1 million from the general revenue fund for debt service.

### General Obligation Bonds – General Comments

The Texas Constitution authorizes the state to issue several types of general obligation bonds. Each issue of general obligation bonds is designed to be self-supporting from a primary revenue source related to the program being financed, except for the general obligation bonds of the Texas Public Finance Authority, the Water Development Board and the Constitutional Appropriation Bonds.

The purpose and primary pledged revenue sources of each type of general obligation bond are summarized below.

The **Texas Higher Education Coordinating Board** issues bonds for educational loans to eligible Texas college students. Payments received on the loan contracts are applied to debt service on the bonds.

The **Texas Parks and Wildlife Department** issues bonds to finance the acquisition and development of state park sites. Park entrance fees and investment earnings are applied to debt service on the bonds.

The **Texas Public Finance Authority** (Authority) issues general obligation bonds to finance the acquisition, construction or renovation of buildings for the use of state agencies and institutions. The Authority is also authorized

to issue general obligation bonds to assist local government economic development projects to enhance the value of military facilities. The bonds are payable from state appropriations.

The **Texas Water Development Board** issues bonds to provide financial assistance to political subdivisions for water development, water quality enhancement projects and flood control projects. Debt service payments are funded by principal and interest received on loans to political subdivisions, repayments of purchased water storage contracts and earnings on temporary investments.

The **General Land Office and Veterans Land Board** issues bonds to provide funds to loan to eligible Texas veterans for the purchase of land, housing or home improvements. Principal and interest payments on loans, plus investment earnings, are the primary source of repayment for bonds.

**Constitutional Appropriation Bonds** are issued in support of the construction programs of colleges and universities not benefiting from the Permanent University Fund, which is dedicated to the University of Texas and Texas A&M University systems. Debt service payments on bonds issued are limited to the $87.5 million in General Revenue Funds available for debt service each year.

The **Economic Development and Tourism Office**, a division within the Office of the Governor, issues general obligation bonds to provide financial assistance to export businesses, to promote domestic business development, to provide loans to finance the commercialization of new and improved products and processes and to provide loans to defense-related communities for economic development projects. Debt service payments are funded primarily from the repayment of loans and the disposition of debt instruments.

## General Obligation Bonds – Authorized But Unissued

The Texas Constitution limits the amount of bonds that can be issued in any of the general obligation categories. As of Aug. 31, 2007, the amounts of general obligation bonds, other than Constitutional Appropriation Bonds, that were authorized but unissued are listed in the table below.

### General Obligation Bonds Authorized But Unissued

(Amounts in Thousands)

| | |
|---|---|
| **SELF-SUPPORTING** | |
| Texas Agricultural Finance Authority Bonds | $ 25,000 |
| Farm and Ranch Loan Bonds | 475,000 |
| Veterans Land and Housing Bonds | 180,592 |
| Water Development Bonds | 2,066,427 |
| College Student Loan Bonds | 177,195 |
| Texas Military Preparedness Commission | 200,405 |
| | 3,124,619 |
| **NOT SELF-SUPPORTING** | |
| Agricultural Water Conservation Bonds | 164,840 |
| Texas Public Finance Authority Bonds | 525,950 |
| Water Development Bonds - Economically Distressed Areas Program | 12,013 |
| | 702,803 |
| Total General Obligation Bonds | $3,827,422 |

### Bonds Issued and Issues Outstanding

(Amounts in Thousands)

| | Bond Issues Outstanding 8/31/07 | Bonds Issued |
|---|---|---|
| **GOVERNMENTAL ACTIVITIES** | | |
| General Obligation Bonds | 54 | $ 8,136,890 |
| Revenue Bonds | 27 | 3,014,068 |
| Governmental Activities Bond Total | 81 | 11,150,958 |
| **BUSINESS-TYPE ACTIVITIES** | | |
| General Obligation Bonds | 86 | 3,576,774 |
| Revenue Bonds | 270 | 15,677,874 |
| Business-Type Activities Bond Total | 356 | 19,254,648 |
| **COMPONENT UNITS** | | |
| Revenue Bonds | 23 | 445,778 |
| Total Bonds | 460 | $30,851,384 |

## Changes in Bonds Payable

For the Fiscal Year Ended August 31, 2007 (Amounts in Thousands)

| | Bonds Outstanding 9/1/06 | Bonds Issued | Bonds Matured or Retired | Bonds Refunded | Bonds Outstanding 8/31/07 | Due Within One Year |
|---|---|---|---|---|---|---|
| **GOVERNMENTAL ACTIVITIES** | | | | | | |
| General Obligation Bonds | $ 4,478,891 | $ 2,602,277 | $ 262,190 | $ 62,085 | $ 6,756,893 | $ 300,083 |
| Revenue Bonds | 1,152,483 | 982,333 | 104,077 | 0 | 2,030,739 | 111,655 |
| Governmental Activities Bond Total | 5,631,374 | 3,584,610 | 366,267 | 62,085 | 8,787,632 | 411,738 |
| **BUSINESS-TYPE ACTIVITIES** | | | | | | |
| General Obligation Bonds | 2,738,685 | 233,251 | 100,489 | 95,980 | 2,775,467 | 110,226 |
| Revenue Bonds | 12,378,384 | 2,429,312 | 683,149 | 1,820,189 | 12,304,358 | 582,702 |
| Business-Type Activities Bond Total | 15,117,069 | 2,662,563 | 783,638 | 1,916,169 | 15,079,825 | 692,928 |
| **COMPONENT UNITS** | | | | | | |
| Revenue Bonds | 262,148 | 165,534 | 51,360 | 0 | 376,322 | 6,914 |
| Total Bonds | $21,010,591 | $ 6,412,707 | $ 1,201,265 | $ 1,978,254 | $24,243,779 | $ 1,111,580 |

### Revenue Bonds – General Comments

Each series of revenue bonds is backed by the pledged revenue sources and restricted funds specified in the bond resolution. Each series is designed to be self-supporting except for the following, which are supported by pledged lease or rental revenue derived from contracts with other state agencies, which in turn comes from legislative appropriations.

- Texas Military Facilities Commission Bonds;
- Texas Public Finance Authority Bonds;
- Texas Department of Criminal Justice Bonds and
- Texas Parks and Wildlife Department Bonds.

The purpose and primary pledged revenue sources of each type of revenue bond are summarized below.

The **Texas Military Facilities Commission** issues bonds for the construction, expansion and renovation of armories. The bonds are payable from certain pledged revenues, primarily rentals from the Adjutant General's Department.

The **Texas Workforce Commission** was authorized to issue, in an amount not to exceed $2 billion for any separate bond issue, revenue bonds to (a) repay advances from the federal unemployment insurance program, (b) pay unemployment benefits by depositing the proceeds in the unemployment compensation fund, (c) pay costs of issuance and (d) pay capitalized interest on bonds. The bonds are payable from revenues collected through an Unemployment Insurance Obligation Tax Assessment.

The **Texas Public Finance Authority** issues bonds to finance the acquisition of real property and the construction, equipping or renovation of buildings for the use of state agencies and institutions of higher education. The bonds are payable from specified pledged revenues, primarily occupant-agency rentals collected.

The **Texas Public Finance Authority** issued bonds to establish the Texas Workers' Compensation Insurance Fund that would operate as an insurance carrier. Due to changes in organizational structure, the fund is now a related organization and their name has changed to the Texas Mutual Insurance Company. Debt service is paid from securities on deposit in the escrow fund. The escrow fund was established to provide for the full and complete discharge of the fund's obligation to continue collecting a maintenance tax surcharge on gross premiums of insurers providing workers compensation insurance in the state.

The **Texas Parks and Wildlife Department** issues bonds for infrastructure repairs and construction. The bonds are payable from rent payments made by the Department to the Texas Public Finance Authority which are funded from state appropriations.

The **General Land Office and Veterans Land Board** issues bonds to assist in the construction of skilled nursing care facilities for veterans and to make home mortgage loans to veterans. The bonds are limited and special revenue obligations of the Board payable solely from the income, revenues, receipts and collateral pledged under the related trust indentures.

# Debt Service Requirements

(Amounts in Thousands)

## GOVERNMENTAL ACTIVITIES

| Year | General Obligation Bonds Principal | Interest | Total | Revenue Bonds Principal | Interest | Total |
|---|---|---|---|---|---|---|
| 2008 | $ 300,083 | $ 313,458 | $ 613,541 | $ 111,655 | $ 93,387 | $ 205,042 |
| 2009 | 366,286 | 305,451 | 671,737 | 115,320 | 88,782 | 204,102 |
| 2010 | 303,525 | 287,263 | 590,788 | 120,280 | 83,828 | 204,108 |
| 2011 | 313,030 | 271,287 | 584,317 | 110,975 | 78,995 | 189,970 |
| 2012 | 275,770 | 257,405 | 533,175 | 117,470 | 74,276 | 191,746 |
| 2013 - 2017 | 1,101,250 | 1,118,632 | 2,219,882 | 534,625 | 297,946 | 832,571 |
| 2018 - 2022 | 741,015 | 924,548 | 1,665,563 | 491,755 | 178,522 | 670,277 |
| 2023 - 2027 | 829,155 | 737,917 | 1,567,072 | 451,380 | 52,688 | 504,068 |
| 2028 - 2032 | 1,070,440 | 518,111 | 1,588,551 | | | 0 |
| 2033 - 2037 | 1,390,785 | 225,804 | 1,616,589 | | | 0 |
| 2038 - 2042 | 75,000 | 14,346 | 89,346 | | | 0 |
| 2043 - 2047 | 45,000 | 7,587 | 52,587 | | | 0 |
| | 6,811,339 * | 4,981,809 | 11,793,148 | 2,053,460 * | 948,424 | 3,001,884 |
| Accretion | (54,446) | | (54,446) | (22,721) | | (22,721) |
| Total | $ 6,756,893 | $ 4,981,809 | $ 11,738,702 | $ 2,030,739 | $ 948,424 | $ 2,979,163 |

## BUSINESS-TYPE ACTIVITIES

| Year | General Obligation Bonds Principal | Interest | Total | Revenue Bonds Principal | Interest | Total |
|---|---|---|---|---|---|---|
| 2008 | $ 110,226 | $ 137,320 | $ 247,546 | $ 565,407 | $ 574,852 | $ 1,140,259 |
| 2009 | 117,915 | 132,768 | 250,683 | 489,866 | 542,995 | 1,032,861 |
| 2010 | 151,538 | 126,792 | 278,330 | 549,832 | 518,549 | 1,068,381 |
| 2011 | 142,479 | 119,725 | 262,204 | 387,209 | 495,894 | 883,103 |
| 2012 | 113,027 | 113,654 | 226,681 | 401,059 | 477,200 | 878,259 |
| 2013 - 2017 | 614,593 | 482,927 | 1,097,520 | 2,334,632 | 2,063,679 | 4,398,311 |
| 2018 - 2022 | 586,385 | 326,263 | 912,648 | 2,295,052 | 1,504,126 | 3,799,178 |
| 2023 - 2027 | 406,250 | 192,963 | 599,213 | 1,830,314 | 1,052,012 | 2,882,326 |
| 2028 - 2032 | 382,580 | 88,581 | 471,161 | 1,701,983 | 735,882 | 2,437,865 |
| 2033 - 2037 | 139,355 | 17,600 | 156,955 | 1,669,370 | 440,202 | 2,109,572 |
| 2038 - 2042 | 17,090 | 2,652 | 19,742 | 1,161,247 | 206,032 | 1,367,279 |
| 2043 - 2047 | 945 | 45 | 990 | 118,498 | 13,293 | 131,791 |
| | 2,782,383 * | 1,741,290 | 4,523,673 | 13,504,469 * | 8,624,716 | 22,129,185 |
| Accretion | (6,916) | | (6,916) | (1,392,983) | | (1,392,983) |
| Premium | | | | 249,706 | | 249,706 |
| Discount | | | | (19,773) | | (19,773) |
| Loss on Refunding | | | | (37,061) | | (37,061) |
| Total | $ 2,775,467 | $ 1,741,290 | $ 4,516,757 | $ 12,304,358 | $ 8,624,716 | $ 20,929,074 |

## COMPONENT UNITS

| Year | Revenue Bonds Principal | Interest | Total |
|---|---|---|---|
| 2008 | $ 6,914 | $ 12,672 | $ 19,586 |
| 2009 | 8,610 | 18,126 | 26,736 |
| 2010 | 8,568 | 17,594 | 26,162 |
| 2011 | 3,574 | 17,069 | 20,643 |
| 2012 | 3,805 | 16,876 | 20,681 |
| 2013 - 2017 | 22,615 | 81,006 | 103,621 |
| 2018 - 2022 | 30,108 | 73,978 | 104,086 |
| 2023 - 2027 | 140,077 | 59,704 | 199,781 |
| 2028 - 2032 | 56,414 | 31,069 | 87,483 |
| 2033 - 2037 | 69,710 | 13,405 | 83,115 |
| 2038 - 2042 | 12,873 | 819 | 13,692 |
| | 363,268 * | 342,318 | 705,586 |
| Premium | 13,054 | | 13,054 |
| Total | $ 376,322 | $ 342,318 | $ 718,640 |

* Increase/Decrease is due to accretion adjustment on deep discount bonds, premium, discount and/or loss on refunding.

## Miscellaneous Bond Information

(Amounts in Thousands)

| Description of Issue | Bonds Issued to Date | Range of Interest Rates | | Maturities First Year | Maturities Last Year | First Call Date |
|---|---|---|---|---|---|---|
| **GOVERNMENTAL ACTIVITIES** | | | | | | |
| General Obligation Bonds | $ 8,479,495 | 2.00 | 8.00 | 1992 | 2045 | 07/01/04 |
| Revenue Bonds | 3,066,428 | 2.50 | 9.00 | 1991 | 2026 | 02/01/01 |
| Governmental Activities Bond Total | 11,545,923 | | | | | |
| **BUSINESS-TYPE ACTIVITIES** | | | | | | |
| General Obligation Bonds | 3,679,649 | 1.37 | 8.06 | 1995 | 2043 | 02/24/94 |
| Revenue Bonds | 18,212,012 | 1.20 | 15.00 | 1988 | 2047 | 02/01/88 |
| Business-Type Activities Bond Total | 21,891,661 | | | | | |
| **COMPONENT UNITS** | | | | | | |
| Revenue Bonds | 485,341 | 3.50 | 7.10 | 1986 | 2040 | 10/08/86 |
| Grand Total | $33,922,925 | | | | | |

The **Texas Department of Housing and Community Affairs** (Department) issues bonds to assist in financing the purchase of homes by, or the construction of rental housing for, families with low to moderate incomes. Loan payments provide the revenues for debt service payments. The Department has also issued taxable bonds for investment in collateralized mortgage obligations of federal agencies, to finance mortgage loans and carry out financial assistance programs.

The **Texas Water Development Board** issues bonds for the water pollution control revolving fund commonly referred to as the state revolving fund. The proceeds are used to provide financial assistance to political subdivisions for water quality enhancement purposes. Political subdivision bonds are pledged for debt service requirements of the bonds.

**Permanent University Fund (Fund) Bonds** are issued by the University of Texas and Texas A&M University systems to build, equip or buy buildings or other permanent improvements. The Texas Constitution limits each system's Fund debt to an amount not to exceed 20 percent and 10 percent, respectively, of the cost value of Fund assets, excluding real estate. Revenue from investments of the Fund is pledged to secure the payment of interest and principal. The cost value of Fund assets at Aug. 31, 2007, excluding real estate, was $10.3 billion. A comparison between the legal debt limits and the actual bonds outstanding at that date is shown below.

## Permanent University Fund Bonds

(Amounts in Thousands)

| | Legal Debt Limits | Actual Bonds Payable | Authorized But Unissued |
|---|---|---|---|
| University of Texas System | $2,055,595 | $ 962,625 | $1,092,970 |
| Texas A&M University System | 1,027,798 | 404,594 | 623,204 |
| Total | $3,083,393 | $1,367,219 | $1,716,174 |

**Miscellaneous College and University Revenue Bonds** are issued to provide funds to acquire, construct, improve, enlarge and equip property, buildings, structures or facilities. The revenue bonds issued by each institution's governing board are secured by the income of the respective institutions and are an obligation of the state of Texas.

The **Texas Small Business Industrial Development Corporation** (TSBIDC), a nonprofit corporation, came under the management of the Office of the Governor effective Sept. 1, 2003, based on Senate Bill 275. The Office is now the oversight agency for the TSBIDC. TSBIDC's financial status is reported as a discretely presented component unit of the Office. The TSBIDC bond program is composed of revenue demand bonds secured by an amended irrevocable letter of credit (LOC) issued by Bank of America, N.A. (Bank of America) for $101.7

million. This instrument replaces the previous LOC issued by Kredietbank Bank. As of Aug. 31, 2007, no principal drawings have been made on the LOC. The Office does not have a take out agreement as part of this LOC or as a separate agreement. Bondholders may tender the bonds for repurchase every seven days. Any bonds so tendered will be purchased by proceeds of the remarketing of the bonds or, if not successfully marketed, from amounts drawn under the LOC.

The **Texas Water Resources Finance Authority**, a public authority created within the Texas Water Development Board, issued bonds to purchase from the Board the majority of existing political subdivision bonds held. The political subdivision bonds are pledged for debt service requirements of the bonds.

The **Texas Department of Transportation Turnpike Authority** issued bonds to pay a portion of the costs of planning, designing, engineering, developing and constructing the initial phase of the Central Texas Turnpike System located in the greater city of Austin metropolitan area in Travis and Williamson counties. The bond obligations are payable from and secured solely by a first lien on and pledge of the Trust Estate.

## Demand Bonds

The Office of the Governor, the General Land Office, the Department of Transportation and the University of Texas System had outstanding demand bonds at Aug. 31, 2007. Details are presented in the tables below and on the following page.

A bond holder may tender any of these bonds for repurchase prior to maturity, usually every seven days. Any bonds so tendered will be purchased either by the proceeds of the remarketing of such bonds or, if not successfully remarketed, from amounts drawn under the letter of credit, liquidity agreement or standby purchase agreement of the respective agency until such time as the remarketing is finalized. As of Aug. 31, 2007, there have been no draws on the letters of credit or other agreements.

## Early Extinguishment of Debt

Entities that had early debt extinguishments in fiscal 2007 are as follows.

The source of funds used for the extinguishments included loan repayments and other available funds.

### Early Extinguished Debt Issues

(Amounts in Thousands)

| | |
|---|---|
| **GOVERNMENTAL ACTIVITIES** | |
| General Obligation Bonds | |
| Texas Public Finance Authority | $ 15,265 |
| Governmental Activities Total | 15,265 |
| **BUSINESS-TYPE ACTIVITIES** | |
| General Obligation Bonds | |
| General Land Office | $ 15,370 |
| Revenue Bonds | |
| Texas Department of Housing and Community Affairs | 138,907 |
| Texas Water Development Board | 12,952 |
| University of Texas System | 13,595 |
| Business-Type Activities Total | 180,824 |
| Grand Total | $ 196,089 |

### Demand Bond – Standby Purchase Agreements

| Counterparties | Secured Bond Issue Agreements | Annual Liquidity Fee | Agreement Termination Date |
|---|---|---|---|
| Comptroller of Public Accounts | 3 | 0.0400% | 08/31/09 |
| DEPFA Bank plc | 1 | 0.0800% | 04/08/12 |
| DEPFA Bank plc | 9 | 0.0750% | 02/22/10 |
| DEPFA Bank plc | 5 | 0.0750% | 05/10/09 |
| Landesbank Hessen-Thuringen Girozentrale | 4 | 0.1000% | 12/31/15 |
| Dexia Credit Local | 9 | 0.0650% | 11/15/11 |
| State Street Bank and Trust Company | 2 | 0.1000% | 02/23/08 |
| State Street Bank and Trust Company | 1 | 0.1000% | 08/08/08 |
| State Street Bank and Trust Company | 1 | 0.0500% | 12/13/13 |
| California Public Employees Retirement System | 1 | 0.0500% | 12/13/13 |
| Banco Bilbao Vizcaya Argentaria, S.A. | 1 | 0.0875% | 11/07/16 |
| Total | 37 | | |

## Demand Bonds

(Amounts in Thousands)

| | Number of Demand Bond Issues 8/31/07 | Standby Purchase Agreement | Letter of Credit | Other | Bonds Redeemed | Principal Balance Outstanding 8/31/07 |
|---|---|---|---|---|---|---|
| **GOVERNMENTAL ACTIVITIES** | | | | | | |
| General Obligation Bonds | | | | | | |
| Office of the Governor | 2 | 0 | 0 | 2 B | None | $ 45,000 |
| Texas Department of Transportation | 2 | 2 A | 0 | 0 | None | 244,075 |
| | 4 | 2 | 0 | 2 | None | 289,075 |
| Revenue Bonds | | | | | | |
| Texas Department of Transportation | 1 | 1 A | 0 | 0 | None | 100,000 |
| | 1 | 1 | 0 | 0 | None | 100,000 |
| Governmental Activities Total | 5 | 3 | 0 | 2 | None | $ 389,075 |
| **BUSINESS-TYPE ACTIVITIES** | | | | | | |
| General Obligation Bonds | | | | | | |
| General Land Office | 27 | 27 A | 0 | 0 | None | $1,061,965 |
| General Land Office/Veterans Land Board | 6 | 6 A | 0 | 0 | None | 167,150 |
| | 33 | 33 | 0 | 0 | None | 1,229,115 |
| Revenue Bonds | | | | | | |
| University of Texas System | 1 | 0 | 0 | 1 B | None | 23,765 |
| | 1 | 0 | 0 | 1 | None | 23,765 |
| Business-Type Activities Bond Total | 34 | 33 | 0 | 1 | None | $1,252,880 |
| **COMPONENT UNITS** | | | | | | |
| Revenue Bonds | | | | | | |
| Office of the Governor | 1 | 0 | 1 C | 0 | None | $ 99,335 |
| Component Units Total | 1 | 0 | 1 | 0 | None | $ 99,335 |

A - See Demand Bonds - Standby Purchase Agreements table.
B - In the event redeemed bonds are not remarketed, internal funds of the agency are available for redemption.
C - In the event that redeemed bonds are not remarketed, a letter of credit with Bank of America will be used until remarketed.

### Refunding

During fiscal 2007 six entities refunded bonds to lower interest rates or to restructure debt service requirements for cash management purposes.

## Refunding Issues

(Amounts in Thousands)

| | Types of Refunding | Par Value of Refunding Issue | Par Value Refunded | Cash Flow Difference Increase | Economic Gain |
|---|---|---|---|---|---|
| **GOVERNMENTAL ACTIVITES** | | | | | |
| General Obligation Bonds | | | | | |
| Texas Higher Education Coordination Board | Current Refunding | $ 26,820 | $ 26,820 | $ 663 | $ 666 |
| Texas Water Development Board | Current Refunding | 19,680 | 20,000 | 2,382 | 1,275 |
| Governmental Activities Total | | 46,500 | 46,820 | 3,045 | 1,941 |
| **BUSINESS-TYPE ACTIVITIES** | | | | | |
| General Obligation Bonds | | | | | |
| General Land Office and Veterans Land Board | Current Refunding | 80,610 | 80,610 | 6,831 | 2,874 |
| Revenue Bonds | | | | | |
| Texas Water Development Board | Current Refunding | 520,860 | 768,065 | 150,525 | 30,635 |
| Texas Department of Housing and Community Affairs | Advance Refunding | 36,600 | 44,880 | 19,913 | 10,032 |
| Midwestern State University | Advance Refunding | 5,695 | 5,525 | 207 | 176 |
| University of Texas System | Advance Refunding | 806,020 | 829,005 | 63,501 | 37,635 |
| | | 1,369,175 | 1,647,475 | 234,146 | 78,478 |
| Business-Type Activities Total | | 1,449,785 | 1,728,085 | 240,977 | 81,352 |
| Grand Total | | $1,496,285 | $1,774,905 | $ 244,022 | $ 83,293 |

## Defeased Bonds Outstanding

Texas has defeased various bond issues by placing funds in irrevocable trusts in the Texas Treasury Safekeeping Trust Company and external financial institutions to provide for all future debt service payments on the old bonds. Funds placed in the Texas Treasury Safekeeping Trust Company to defease $224.5 million in bonds are included in the state's financial statements in an agency fund. The trust account assets and the liability for all other defeased bonds are not included in the state's financial statements. As of Aug. 31, 2007, the following amounts of defeased bonds, at par, remained outstanding.

### Defeased Bonds Outstanding

(Amounts in Thousands)

| | |
|---|---|
| **GOVERNMENTAL ACTIVITES** | |
| **General Obligation Bonds** | |
| Texas Water Development Board | $ 69,690 |
| Texas National Research Laboratory Commission | 44,075 |
| Texas Public Finance Authority | 27,027 |
| Texas Parks and Wildlife Department | 8,250 |
| **Revenue Bonds** | |
| Texas Public Finance Authority | 202,210 |
| Texas Parks and Wildlife Department | 31,245 |
| | 382,497 |
| **BUSINESS-TYPE ACTIVITIES** | |
| **General Obligation Bonds** | |
| General Land Office and Veterans Land Board | 64,700 |
| Texas Water Development Board | 24,955 |
| **Revenue Bonds** | |
| University of Texas System | 1,482,379 |
| Texas A&M University System | 187,426 |
| Texas Tech University System | 168,455 |
| Texas State University System | 79,983 |
| Department of Housing and Community Affairs | 61,225 |
| University of Houston System | 44,430 |
| University of North Texas System | 25,255 |
| Texas Water Development Board | 17,425 |
| Midwestern State University | 5,525 |
| Stephen F. Austin State University | 3,021 |
| Texas Southern University | 245 |
| | 2,165,024 |
| Total | $2,547,521 |

## Conduit Debt

The Texas State Affordable Housing Corporation (Corporation) is authorized to issue statewide 501 (c) (3) tax-exempt multifamily mortgage revenue bonds under the Texas Government Code §2306.555. The 501 (c) (3) tax-exempt multifamily mortgage revenue bond program provides long-term variable or fixed rate financing to nonprofit borrower/developers of new or existing multifamily rental properties in order to generate and/or preserve affordable rental housing. The Corporation may finance single developments or pools of properties located throughout the state of Texas. Borrowers must agree to set aside a prescribed percentage of a property's units for rent to persons and families of low income. The Corporation finances properties under the program primarily through the sale of tax-exempt multifamily housing revenue bonds.

The bonds are secured by the property financed and are payable solely from payments received on the underlying mortgage loans. Neither the Corporation, the state nor any political subdivision thereof is obligated in any manner for repayment of the bonds. Accordingly, the bonds are not reported as liabilities in the accompanying statements.

As of Aug. 31, 2007, there were 22 series of multifamily housing revenue bonds outstanding with an aggregate $375 million principal amount payable.

# Pay-Fixed
# Receive-Variable Interest Rate Swaps
(Amounts in Thousands)

| Associated Bond Issue | Notional Amount | Effective Date | Fixed-Rate Paid | Variable-Rate Received | Knock-out Barrier |
|---|---|---|---|---|---|
| **GENERAL LAND OFFICE – VETERANS LAND BOARD** | | | | | |
| Vet Hsg Ref Bds Ser '95 | $ 61,275 | 11/29/1995 | 5.5200% | Actual Bond Rate | N/A |
| Vet Land Ref Bds Ser '99A | 30,470 | 06/01/1999 | 5.1120% | 68% of 6M LIBOR** | N/A |
| Vet Land Tax Ref Bds Ser '99B | 20,245 | 12/01/1999 | 5.1250% | 100% of 6M LIBOR | 1M LIBOR >= 6.50% |
| Vet Land Tax Ref Bds Ser 2000 | 39,960 | 12/01/2000 | 6.1060% | 100% of 6M LIBOR | 1M LIBOR >= 7.00% |
| Vet Hsg Fund II Bds Ser 2001A-2 | 20,000 | 03/22/2001 | 4.3000% | 68% of 1M LIBOR | N/A |
| Vet Hsg Fund II Bds Ser 2001C-2 | 25,000 | 12/18/2001 | 4.3650% | 68% of 1M LIBOR | N/A |
| Vet Land Bds Ser 2002 | 18,610 | 02/21/2002 | 4.1400% | 68% of 1M LIBOR | N/A |
| Vet Hsg Fund II Bds Ser 2002A-2 | 28,760 | 07/10/2002 | 3.8725% | 68% of 1M LIBOR | N/A |
| Vet Land Tax Ref Bds Ser 2002 | 27,685 | 12/01/2002 | 4.9350% | 100% of 6M LIBOR | 6M LIBOR >= 7.00% |
| Vet Hsg Fund I Tax Ref Bds Ser 2002B | 19,780 | 12/01/2002 | 4.9100% | 100% of 6M LIBOR | 6M LIBOR > 7.00% |
| Vet Hsg Fund II Bds Ser 2003A | 43,010 | 03/04/2003 | 3.3040% | 68% of 1M LIBOR | N/A |
| Vet Hsg Fund II Bds Ser 2003B | 44,215 | 10/22/2003 | 3.4030% | 64.5% of 1M LIBOR | N/A |
| Vet Land Tax Ref Bds Ser 2003 | 26,465 | 12/01/2003 | 5.1230% | 100% of 1M LIBOR | 1M LIBOR >= 7.00% |
| Vet Hsg Fund I Tax Ref Bds Ser 2003 | 47,865 | 12/01/2003 | 5.1900% | 100% of 6M LIBOR | 6M LIBOR > 7.00% |
| Vet Hsg Fund II Bds Ser 2004A | 44,820 | 04/07/2004 | 3.3130% | 68% of 1M LIBOR | N/A |
| Vet Hsg Fund I Tax Ref Bds Ser 2004 | 16,535 | 06/01/2004 | 5.4500% | 100% of 6M LIBOR | 6M LIBOR >= 7.00% |
| Vet Hsg Fund II Bds Ser 2004B | 47,315 | 09/15/2004 | 3.6800% | 68% of 1M LIBOR | N/A |
| Vet Land Tax Ref Bds Ser 2004 | 23,710 | 12/01/2004 | 5.4550% | 100% of 6M LIBOR | 6M LIBOR >= 7.00% |
| Vet Hsg Fund II Tax Ref Bds Ser 2004C,D,E | 38,385 | 12/01/2004 | 5.3480% | 100% of 1M LIBOR | 1M LIBOR >= 7.00% |
| Vet Hsg Fund II Bds Ser 2005A | 47,030 | 02/24/2005 | 3.2790% | 68% of 1M LIBOR | N/A |
| Vet Hsg Fund II Bds Ser 2005B | 47,695 | 08/09/2005 | 3.0870% | 68% of 1M LIBOR | N/A |
| Vet Land Tax Ref Bds Ser 2005 | 22,210 | 12/01/2005 | 6.5170% | 100% of 6M LIBOR | 6M LIBOR >= 7.00% |
| Vet Hsg Fund I/II Tax Ref Bds Ser 2005C/D | 24,400 | 12/01/2005 | 5.1450% | 100% of 1M LIBOR | 1M LIBOR >= 7.00%; 6M LIBOR > 4.00% and SIFMA***/LIBOR Ratio > 74% |
| Vet Hsg Fund I Tax Ref Bds Ser 2005C | 18,970 | 12/01/2005 | 4.9290% | 100% of 1M LIBOR | 1M LIBOR >= 7.00%; 6M LIBOR > 4.00% and SIFMA/LIBOR Ratio > 74% |
| Vet Hsg Fund I Tax Ref Bds Ser 2005C | 4,980 | 12/01/2005 | 4.3300% | 100% of 1M LIBOR | N/A |
| Vet Hsg Fund II Bds Ser 2006A | 48,705 | 06/01/2006 | 3.5170% | 68% of 1M LIBOR | N/A |
| Vet Land Tax Ref Bds Ser 2006A | 30,380 | 06/01/2006 | 6.5400% | 100% of 6M LIBOR | 6M LIBOR >= 7.00% |
| Vet Hsg Fund II Tax Ref Bds Ser 2006C | 21,865 | 06/01/2006 | 5.7900% | 100% of 6M LIBOR | 6M LIBOR >= 7.00% |
| Vet Hsg Fund II Tax Ref Bds Ser 2006B | 38,570 | 06/01/2006 | 5.8300% | 100% of 1M LIBOR | 1M LIBOR >= 7.00% |
| Vet Land Tax Ref Bds Ser 2006B | 23,520 | 06/01/2006 | 4.6100% | 100% of 6M LIBOR | 6M LIBOR >= 7.00% |
| Vet Hsg Fund II Bds Ser 2006D | 49,630 | 09/20/2006 | 3.6890% | 68% of 1M LIBOR | N/A |
| Vet Land Tax Ref Bds Ser 2006C | 40,325 | 12/01/2006 | 6.5130% | 100% of 1M LIBOR | 1M LIBOR >= 7.00% |
| Vet Hsg Fund II Tax Ref Bds Ser 2006E | 39,560 | 12/01/2006 | 5.4610% | 100% of 1M LIBOR | 1M LIBOR >= 7.00%; 6M LIBOR > 4.00% and SIFMA/LIBOR Ratio > 74% |
| Vet Hsg Fund II Tax Ref Bds Ser 2007 | 54,160 | 12/01/2007 | 4.6580% | 100% of 1M LIBOR | 1M LIBOR >= 7.00%; SIFMA/5Y ISDA CMS >71% |
| Vet Hsg Fund II Bds Ser 2007A | 50,000 | 02/22/2007 | 3.6450% | 68% of 1M LIBOR | N/A |
| Vet Hsg Fund II Bds Ser 2007B | 50,000 | 06/26/2007 | 3.7120% | 68% of 1M LIBOR | N/A |
| Vet Hsg Fund II Tax Ref Bds Ser 2009 | 16,950 | 12/01/2009 | 6.2200% | 100% of 6M LIBOR | 6M LIBOR >= 7.00% |
| Vet Hsg Fund II Tax Ref Bds Ser 2009A | 65,845 | 12/01/2009 | 5.4525% | 100% of 6M LIBOR | 6M LIBOR >= 7.00% |
| Vet Hsg Fund II Tax Ref Bds Ser 2010A | 66,720 | 06/01/2010 | 5.4010% | 100% of 1M LIBOR | 1M LIBOR >= 7.00%; 6M LIBOR > 4.00% and SIFMA/LIBOR Ratio > 74% |
| Vet Land Tax Ref Bds Ser 2010 | 16,480 | 12/01/2010 | 5.2090% | 100% of 1M LIBOR | 1M LIBOR >= 7.00%; 6M LIBOR > 4.00% and SIFMA/LIBOR Ratio > 74% |
| Vet Homes Rev Ref Bds, Ser 2012 | 21,795 | 08/01/2012 | 3.7600% | 68% of 1M LIBOR | 1M LIBOR >= 7.00% |
| Subtotal General Land Office – Veterans Land Board | 1,423,895 | | | | |

*Continued on the following page*

# Pay-Fixed
# Receive-Variable Interest Rate Swaps (continued)

(Amounts in Thousands)

| Associated Bond Issue | Knock-out Type | Knock-out Period | Up-Front Knock-out Premium Received | Fair Value | Swap Termination Date | Counterparty Credit Ratings * |
|---|---|---|---|---|---|---|
| **GENERAL LAND OFFICE – VETERANS LAND BOARD** | | | | | | |
| Vet Hsg Ref Bds Ser '95 | N/A | N/A | N/A | $ (6,589) | 12/01/2016 | AAA/Aaa |
| Vet Land Ref Bds Ser '99A | N/A | N/A | N/A | (2,748) | 12/01/2018 | AAA/Aaa |
| Vet Land Tax Ref Bds Ser '99B | Optional | Permanent | 740 | (159) | 12/01/2009 | AAA/Aaa |
| Vet Land Tax Ref Bds Ser 2000 | Optional | Permanent | 2,700 | (3,597) | 12/01/2020 | AAA/Aaa |
| Vet Hsg Fund II Bds Ser 2001A-2 | N/A | N/A | N/A | (1,458) | 12/01/2029 | AA-/Aa1 |
| Vet Hsg Fund II Bds Ser 2001C-2 | N/A | N/A | N/A | (2,429) | 12/01/2033 | AAA/Aaa |
| Vet Land Bds Ser 2002 | N/A | N/A | N/A | (1,069) | 12/01/2032 | AA-/Aa3 |
| Vet Hsg Fund II Bds Ser 2002A-2 | N/A | N/A | N/A | (825) | 06/01/2033 | AAA/Aaa |
| Vet Land Tax Ref Bds Ser 2002 | Mandatory | Periodic | 2,785 | (453) | 12/01/2021 | AA-/Aa3 |
| Vet Hsg Fund I Tax Ref Bds Ser 2002B | Mandatory | Periodic | 2,165 | (335) | 06/01/2023 | AAA/Aaa |
| Vet Hsg Fund II Bds Ser 2003A | N/A | N/A | N/A | 775 | 06/01/2034 | AA-/Aa3 |
| Vet Hsg Fund II Bds Ser 2003B | N/A | N/A | N/A | 43 | 06/01/2034 | AAA/Aaa |
| Vet Land Tax Ref Bds Ser 2003 | Mandatory | Periodic | 1,896 | (824) | 12/01/2023 | AA-/Aa3 |
| Vet Hsg Fund I Tax Ref Bds Ser 2003 | Mandatory | Periodic | 4,470 | (1,583) | 06/01/2021 | AAA/Aaa |
| Vet Hsg Fund II Bds Ser 2004A | N/A | N/A | N/A | 787 | 12/01/2034 | AAA/Aaa |
| Vet Hsg Fund I Tax Ref Bds Ser 2004 | Mandatory | Periodic | 1,442 | (1,024) | 12/01/2024 | AAA/Aaa |
| Vet Hsg Fund II Bds Ser 2004B | N/A | N/A | N/A | (553) | 12/01/2034 | AAA/Aaa |
| Vet Land Tax Ref Bds Ser 2004 | Mandatory | Periodic | 2,075 | (1,438) | 12/01/2024 | AA-/Aa3 |
| Vet Hsg Fund II Tax Ref Bds Ser 2004C,D,E | Mandatory | Periodic | 2,594 | (1,716) | 06/01/2020 | AA-/Aa3 |
| Vet Hsg Fund II Bds Ser 2005A | N/A | N/A | N/A | 1,005 | 06/01/2035 | AAA/Aaa |
| Vet Hsg Fund II Bds Ser 2005B | N/A | N/A | N/A | 1,769 | 06/01/2036 | AAA/Aaa |
| Vet Land Tax Ref Bds Ser 2005 | Mandatory | Periodic | 1,542 | (3,064) | 12/01/2026 | AAA/Aaa |
| Vet Hsg Fund I/II Tax Ref Bds Ser 2005C/D | Mandatory | Periodic | 1,367 | (1,661) | 06/01/2026 | AA-/Aa3 |
| | | | 566 | | | |
| Vet Hsg Fund I Tax Ref Bds Ser 2005C | Mandatory | Periodic | 484 | (673) | 12/01/2023 | AA-/Aa3 |
| | | | 267 | | | |
| Vet Hsg Fund I Tax Ref Bds Ser 2005C | N/A | N/A | N/A | 50 | 12/01/2009 | AA-/Aa3 |
| Vet Hsg Fund II Bds Ser 2006A | N/A | N/A | N/A | 350 | 12/01/2036 | AAA/Aaa |
| Vet Land Tax Ref Bds Ser 2006A | Mandatory | Periodic | 1,931 | (4,234) | 12/01/2027 | AAA/Aaa |
| Vet Hsg Fund II Tax Ref Bds Ser 2006C | Mandatory | Periodic | 1,493 | (1,803) | 12/01/2027 | AAA/Aaa |
| Vet Hsg Fund II Tax Ref Bds Ser 2006B | Mandatory | Periodic | 1,992 | (3,984) | 12/01/2026 | AA-/Aa3 |
| Vet Land Tax Ref Bds Ser 2006B | Mandatory | Periodic | 886 | 72 | 12/01/2026 | AAA/Aaa |
| Vet Hsg Fund II Bds Ser 2006D | N/A | N/A | N/A | (405) | 12/01/2036 | AA+/Aa2 |
| Vet Land Tax Ref Bds Ser 2006C | Mandatory | Periodic | 2,725 | (5,635) | 12/01/2027 | AA-/Aa3 |
| Vet Hsg Fund II Tax Ref Bds Ser 2006E | Mandatory | Periodic | 2,652 | (4,057) | 12/01/2026 | AA-/Aa3 |
| | | | 1,018 | | | |
| Vet Hsg Fund II Tax Ref Bds Ser 2007 | Mandatory | Periodic | 935 | (1,831) | 06/01/2029 | AA-/Aa3 |
| | | | 1,020 | | | |
| Vet Hsg Fund II Bds Ser 2007A | N/A | N/A | N/A | (453) | 06/01/2037 | AAA/Aaa |
| Vet Hsg Fund II Bds Ser 2007B | N/A | N/A | N/A | (742) | 06/01/2038 | AAA/Aaa |
| Vet Hsg Fund II Tax Ref Bds Ser 2009 | Mandatory | Periodic | 612 | (1,167) | 12/01/2021 | AAA/Aaa |
| Vet Hsg Fund II Tax Ref Bds Ser 2009A | Mandatory | Periodic | 2,740 | (3,675) | 06/01/2031 | AAA/Aaa |
| Vet Hsg Fund II Tax Ref Bds Ser 2010A | Mandatory | Periodic | 2,355 | (6,183) | 12/01/2031 | AA-/Aa3 |
| | | | 1,427 | | | |
| Vet Land Tax Ref Bds Ser 2010 | Mandatory | Periodic | 466 | (1,181) | 12/01/2030 | AA-/Aa3 |
| | | | 208 | | | |
| Vet Homes Rev Ref Bds, Ser 2012 | Mandatory | Periodic | 579 | (959) | 08/01/2035 | AAA/Aaa |
| Subtotal General Land Office – Veterans Land Board | | | 48,132 | (63,656) | | |

*Continued on the following page*

## Pay-Fixed
## Receive-Variable Interest Rate Swaps (continued)

(Amounts in Thousands)

| Associated Bond Issue | Notional Amount | Effective Date | Fixed-Rate Paid | Variable-Rate Received | Knock-out Barrier |
|---|---|---|---|---|---|
| **TEXAS DEPARTMENT OF HOUSING AND COMMUNITY AFFAIRS** | | | | | |
| 2004B Single Family | 53,000 | 09/01/2004 | 3.8430% | 63% of LIBOR + .30% | N/A |
| 2004D Single Family | 35,000 | 01/01/2005 | 3.6125% | Lesser of (the greater of 65% of LIBOR and 56% of LIBOR + .45%) and LIBOR | N/A |
| 2005A Single Family | 98,145 | 08/01/2005 | 3.9900% | Lesser of (the greater of 65% of LIBOR and 56% of LIBOR + .45%) and LIBOR | N/A |
| 2006H Single Family | 36,000 | 11/15/2006 | 3.8570% | 63% of LIBOR + .30% | N/A |
| 2007A Single Family | 143,005 | 06/05/2007 | 4.0130% | Lesser of (the greater of 65% of LIBOR and 56% of LIBOR + .45%) and LIBOR | N/A |
| Subtotal Tx. Dept. of Housing and Comm Affairs | 365,150 | | | | |
| **UNIVERSITY OF TEXAS SYSTEM** | | | | | |
| Rev Fin Sys Ref Bds Ser 2001A | 23,445 | 08/15/2001 | 4.6330% | 67% of 1M LIBOR | N/A |
| Rev Fin Sys Ref Bds Ser 2008 | 310,000 | 02/15/2008 | 3.8400% | | |
| Subtotal University of Texas System | 333,445 | | | | |
| Total | $2,122,490 | | | | |

* Standard and Poor's, Moody's Investor Service and Fitch Ratings, LTD.
** London Interbank Offered Rate (LIBOR).
*** Securities Industry and Financial Markets Association Index (SIMFA) rate.

*Concluded on the following page*

## DERIVATIVES

During fiscal 2007 the Veterans Land Board (VLB), the Texas Department of Housing and Community Affairs (the Department), the Texas Department of Transportation and the University of Texas System (UT) have reported derivatives.

### Pay-Fixed, Receive-Variable Interest Rate Swaps (Veterans Land Board)

***Objective of the Swaps:*** The Veterans Land Board is currently a party to 41 pay-fixed, receive-variable interest rate swaps that are associated with 45 variable-rate bond issues. The combination of swaps and variable-rate bonds creates synthetic fixed-rate debt. The use of synthetic fixed-rate debt has historically lowered the VLB's borrowing costs, as compared to the borrowing costs associated with the issuance of traditional fixed-rate bonds. Several of the swaps contain embedded barrier options that provide for the VLB to be "knocked out" of the swaps by the respective counterparties upon the breach of a certain predetermined barrier. In each of these cases, the VLB was paid an up-front option premium by the respective counterparties. With regard to the swaps associated with the Vet Land Tax Ref

## Pay-Fixed
## Receive-Variable Interest Rate Swaps (concluded)

(Amounts in Thousands)

| Associated Bond Issue | Knock-out Type | Knock-out Period | Up-Front Knock-out Premium Received | Fair Value | Swap Termination Date | Counterparty Credit Ratings * |
|---|---|---|---|---|---|---|
| **TEXAS DEPARTMENT OF HOUSING AND COMMUNITY AFFAIRS** | | | | | | |
| 2004B Single Family | N/A | N/A | N/A | (379) | 09/01/2034 | AA/A3/AA+ |
| 2004D Single Family | N/A | N/A | N/A | (96) | 03/01/2035 | NR/Aa3/AA- |
| 2005A Single Family | N/A | N/A | N/A | (1,580) | 09/01/2036 | AAA/NR/NR |
| 2006H Single Family | N/A | N/A | N/A | (554) | 09/01/2025 | AA/A3/AA+ |
| 2007A Single Family | N/A | N/A | N/A | (3,224) | 09/01/2038 | AAA/NR/NR |
| Subtotal Tx. Dept. of Housing and Comm Affairs | | | 0 | (5,833) | | |
| **UNIVERSITY OF TEXAS SYSTEM** | | | | | | |
| Rev Fin Sys Ref Bds Ser 2001A | N/A | N/A | N/A | (970) | 08/15/2013 | AA/Aaa |
| Rev Fin Sys Ref Bds Ser 2008 | N/A | N/A | N/A | 6,760 | 08/15/2036 | 50% AA/Aaa 50% A+/Aa3 |
| Subtotal University of Texas System | | | 0 | 5,790 | | |
| Total | | | $48,132 | $(63,699) | | |

Bds Ser '99B and the Vet Land Tax Ref Bds Ser 2000, the knock-outs are permanent and are optional at the discretion of the counterparty. In the remainder of the swaps with embedded barrier options, the knock-out is mandatory and is periodic in nature, with the knock-out period corresponding only to the period during which the barrier was breached.

***Terms, Fair Values and Credit Ratings:*** The terms, fair values and counterparty credit ratings related to the outstanding variable-to-fixed swaps as of Aug. 31, 2007, are shown in the tables on the previous pages. The notional amounts and amortization schedules of the swaps match those of the associated variable-rate bonds.

### Pay-Variable, Receive-Fixed Interest Rate Swaps (Veterans Land Board)

***Objective of the Swaps:*** The VLB is currently a party to one pay-variable, receive-fixed interest rate swap that is associated with a taxable variable-rate bond issue. The swap was overlaid on an existing pay-fixed, receive-variable swap and effectively results in unhedged variable-rate bonds with an expected borrowing cost significantly below market over the life of the swap.

***Terms, Fair Values and Credit Ratings:*** The terms, fair values and counterparty credit ratings related to the outstanding fixed-to-variable basis swaps as of Aug. 31, 2007, are shown in the table below. The notional amounts and amortization schedules of the swaps match those of the associated variable-rate bonds.

**Pay-Variable**
**Receive-Fixed Interest Rate Swaps**
(Amounts in Thousands)

| Associated Bond Issue | Notional Amount | Effective Date | Variable-Rate Paid | Fixed-Rate Received | Knock-out Barrier |
|---|---|---|---|---|---|
| **GENERAL LAND OFFICE – VETERANS LAND BOARD** | | | | | |
| Vet Land Tax Ref Bds Ser 2006B | $23,520 | 06/01/2006 | 100% of 6M LIBOR | 4.6100% | 6M LIBOR >= 8.00% |
| Total | $23,520 | | | | |

| Associated Bond Issue | Knock-out Type | Knock-out Period | Up-Front Knock-out Premium Received | Fair Value | Swap Termination Date | Counterparty Credit Ratings |
|---|---|---|---|---|---|---|
| **GENERAL LAND OFFICE – VETERANS LAND BOARD** | | | | | | |
| Vet Land Tax Ref Bds Ser 2006B | Mandatory | Periodic | 674 | $(563) | 12/01/2026 | AAA/Aaa |
| Total | | | $674 | $(563) | | |

## Pay-Variable, Receive-Variable Interest Rate Swaps (Veterans Land Board)

***Objective of the Swaps:*** The VLB is currently a party to six pay-variable, receive-variable interest rate swaps that are associated with three taxable variable-rate bond issues, four taxable fixed-rate bond issues and 14 synthetic taxable fixed-rate bond issues. Four of these swaps are London Interbank Offered Rate (LIBOR) - to - Securities Industry Financial Markets Association rate (SIFMA) basis swaps and effectively convert the variable rate on the associated variable-rate bond issues from a LIBOR (taxable) based rate to a SIFMA (tax-exempt) based rate. The two remaining swaps are a LIBOR Constant Maturity Swap (CMS) basis swap and a SIFMA CMS basis swap, respectively. Both are expected to increase the cash flow on the associated taxable fixed and synthetic fixed-rate bonds due to projected changes in the relationship between short and long-term interest rates. The swaps are expected to generate an effective lower borrowing cost to the VLB over the life of the swaps.

***Terms, Fair Values and Credit Ratings:*** The terms, fair values and counterparty credit ratings related to the outstanding variable-to-variable basis swaps as of Aug. 31, 2007, are shown in the table below. The notional amounts and amortization schedules of the swaps match those of the associated variable-rate bonds.

## Fair Value Methodology and Risk Exposure of Swap Transactions (Veterans Land Board)

***Fair Value:*** The fair values of the swaps were estimated using the zero-coupon method. Using observable market information for Treasury bonds and LIBOR spreads, a smoothed LIBOR swap yield curve is constructed. From this swap yield curve, the path of future expected floating LIBOR interest rates is determined for a specific swap

### Pay-Variable Receive-Variable Interest Rate Swaps

(Amounts in Thousands)

| Associated Bond Issue | Notional Amount | Effective Date | Variable-Rate Paid | Variable-Rate Received | Fair Value | Swap Termination Date | Counter-party Credit Ratings * |
|---|---|---|---|---|---|---|---|
| **GENERAL LAND OFFICE – VETERANS LAND BOARD** | | | | | | | |
| Vet Hsg Fund II Tax Bds Ser '97B-2 | $ 25,000 | 09/27/2002 | 132.60% of SIFMA | 100% of 3M LIBOR | $ 316 | 12/01/2010 | AA-/Aa3 |
| Vet Hsg Fund II Tax Bds Ser '99A-2 | 90,000 | 08/05/2002 | 134.40% of SIFMA | 100% of 1M LIBOR | 975 | 09/01/2011 | AAA/Aaa |
| Vet Hsg Fund II Tax Bds Ser '99A-2 | 60,000 | 08/05/2002 | 134.40% of SIFMA | 100% of 1M LIBOR | 644 | 09/01/2011 | AAA/Aaa |
| Vet Land Tax Bds Ser 2000A/2002A | 37,240 | 08/05/2002 | 131.25% of SIFMA | 100% of 1M LIBOR | 322 | 12/01/2032 | AA-/Aa3 |
| Various Vet Land & Hsg Fd I/II Tax Bds | 217,860 | 05/10/2006 | 3M LIBOR | 10Y ISDA | 1,436 | 06/01/2014 | AAA/Aaa |
| Various Vet Land & Hsg Fd I/II Tax Bds | 249,465 | 09/01/2007 | 100% of SIFMA | CMS - 42.5 bp 10Y SIMFA CMS - 54 bp | (959) | 12/01/2027 | AAA/Aaa |
| Subtotal General Land Office – Veterans Land Board | 679,565 | | | | 2,734 | | |
| **TEXAS DEPARTMENT OF TRANSPORTATION** | | | | | | | |
| Mobility Fund GO Bds Ser 2006A | 400,000 | 09/01/2007 | 100% of SIFMA | 69.42% 10Y USD-ISDA | 1,663 | 09/01/2027 | 50% AA/Aaa/AA-<br>25% AAA/Aa3/AA-<br>25% AA-/Aa3/AA- |
| Subtotal Texas Department of Transportation | 400,000 | | | | 1,663 | | |
| Total | $1,079,565 | | | | $4,397 | | |

* Standard and Poor's, Moody's Investor Service and Fitch Ratings, LTD.

transaction. The path of the floating payments is then averaged together to produce a single fixed swap rate for the same time horizon as the swap being valued. The difference between this calculated fixed swap rate and the actual fixed swap rate on the transaction is then multiplied by the applicable outstanding notional amount at each future payment date to generate a series of payments. These payments are then discounted back to the valuation date using hypothetical zero-coupon bond rates derived from the LIBOR swap yield curve. The sum of these discounted payments produces the fair value of the swap.

For swaps with embedded options, an additional calculation similar to that described above is conducted to determine the value of the options. Using the approach described above, a swap rate is derived for each potential exercise date of each option. Market-derived data for interest rate volatility is then used to determine a probabilistic range of potential swap rates. For each potential swap rate, a value is determined for the option. These values are then weighted by their probabilities and discounted back to the valuation date using hypothetical zero-coupon bond rates as described above. The sum of the present value of the values for each exercise date produces the fair value of the option.

***Credit Risk:*** The VLB mitigates the credit risk associated with its swaps by entering into transactions with highly-rated counterparties. As shown in the tables on the previous page, the credit ratings of the VLB's counterparties range from AAA to AA- by Standard & Poor's (S&P) and Aaa to Aa3 by Moody's Investors Service (Moody's).

The VLB also mitigates its concentration of credit risk by diversifying its swap portfolio across several different counterparties. The VLB's 52 currently outstanding swaps are spread among nine different counterparties with no more than 30 percent of the total notional amount of swaps outstanding being associated with any single counterparty.

The VLB's swap agreements also contain collateralization provisions that require counterparties to post collateral in the full amount of the fair value of the swap if the counterparty's credit rating is at or below A+ by S&P or A1 by Moody's. Only U.S. Government obligations are acceptable forms of collateral. Posted collateral may be held either by the VLB itself or by a third party custodian that is rated at least BBB+ by S&P or Baa1 by Moody's.

***Basis Risk:*** The VLB is exposed to basis risk to the extent that the interest payments on its variable-rate bonds do not match the variable-rate payments received on the associated swaps. The VLB mitigates this risk by (a) matching the notional amount and amortization schedule of each swap to the principal amount and amortization schedule of each associated variable-rate bond issue and (b) selecting an index for the variable-rate leg of each swap that is reasonably expected to closely match the interest rate resets on the associated variable-rate bonds over the life of each bond issue.

***Termination Risk:*** The VLB or the counterparties may terminate any of the swaps if the other party fails to perform under the terms of the respective swap agreements. The VLB also has the right to terminate any of the swaps at any time without cause. In addition, the swaps associated with the Vet Land Tax Ref Bds Ser '99B and the Vet Land Tax Ref Bds Ser 2000 provide the counterparty with the option to terminate the swap under certain conditions. If any of the swaps are terminated, the associated variable-rate bonds would no longer have a synthetic fixed rate and the VLB would be subject to interest rate risk to the extent that the variable-rate bonds were not hedged with another swap or with variable-rate assets on the VLB's balance sheet. If, at

## Interest Rate Swaps Subject to Rollover

| Associated Bond Issue | Maturity Date of Bonds | Option Exercise Date | Swap Termination Date |
|---|---|---|---|
| **GENERAL LAND OFFICE** | | | |
| Vet Land Tax Ref Bds Ser '99B | 12/01/09 | 04/29/02 | 12/01/09 |
| Vet Land Tax Ref Bds Ser 2000 | 12/01/20 | 04/29/02 | 12/01/20 |
| **TEXAS DEPARTMENT OF HOUSING AND COMMUNITY AFFAIRS** | | | |
| 2004 Single Family Series B | 09/01/34 | 03/01/14 | 09/01/34 |
| 2004 Single Family Series D | 03/01/35 | 09/01/14 | 03/01/35 |
| 2005 Single Family Series A | 09/01/36 | Anytime with 10 day notice | 09/01/36 |
| 2006 Single Family Series H | 09/01/37 | 03/01/16 | 09/01/25 |
| 2007 Single Family Series A | 09/01/38 | Anytime with 10 day notice | 09/01/38 |
| **TEXAS DEPARTMENT OF TRANSPORTATION** | | | |
| Mobility Fund GO Bds Ser 2006A | 04/01/35 | N/A | 09/01/27 |

the time of termination for a reason other than the exercise of a termination option held by a counterparty, a swap has a negative fair value, the VLB would owe the respective counterparty a termination payment equal to the swap's fair value.

***Rollover Risk:*** The swaps associated with the Vet Land Tax Ref Bds Ser '99B and the Vet Land Tax Ref Bds Ser 2000 provide the counterparty with the option to terminate the swap under certain conditions at any time. If either of these swaps is terminated through the counterparty's exercise of its option, the associated variable-rate bonds would no longer have a synthetic fixed rate and the VLB would be subject to interest rate risk to the extent that the variable-rate bonds were not hedged with another swap or with variable-rate assets on the VLB's balance sheet.

Bonds that are exposed to such rollover risk are shown in the table on the previous page.

***Swap Payments and Associated Debt:*** Using rates as of Aug. 31, 2007, the estimated debt service requirements of the VLB's variable-rate bonds and associated net swap payments, assuming current interest rates and swap index relationships remain the same for their terms, are shown in the tables below: "Pay-Fixed, Receive-Variable Interest Rate Swaps: Estimated Debt Service Requirements of Variable-Rate Debt Outstanding and Net Swap Payments" and "Pay-Variable, Receive-Variable Interest Rate Swaps: Estimated Debt Service Requirements of Variable-Rate Debt Outstanding and Net Swap Payments." As rates and index relationships vary in the future, so will the resulting actual interest payments and net swap payments.

## Pay-Fixed, Receive-Variable Interest Rate Swaps: Estimated Debt Service Requirements of Variable-Rate Debt Outstanding and Net Swap Payments

(Amounts in Thousands)

| Year | Variable-Rate Bonds Principal | Variable-Rate Bonds Interest | Interest Rate Swaps, Net | Total |
|---|---|---|---|---|
| 2008 | $ 44,565 | $ 68,642 | $ 1,655 | $ 114,862 |
| 2009 | 52,475 | 67,966 | 1,812 | 122,253 |
| 2010 | 56,695 | 65,588 | 1,758 | 124,041 |
| 2011 | 48,170 | 63,205 | 1,665 | 113,040 |
| 2012 | 48,425 | 61,126 | 1,539 | 111,090 |
| 2013 - 2017 | 324,250 | 267,483 | 5,616 | 597,349 |
| 2018 - 2022 | 367,725 | 181,135 | 3,387 | 552,247 |
| 2023 - 2027 | 296,610 | 101,283 | 2,827 | 400,720 |
| 2028 - 2032 | 195,155 | 47,655 | 1,377 | 244,187 |
| 2033 - 2037 | 135,760 | 13,028 | 693 | 149,481 |
| 2038 - 2042 | 8,205 | 231 | 25 | 8,461 |
| Total | $1,578,035 | $937,342 | $22,354 | $2,537,731 |

## Pay-Variable, Receive-Variable Interest Rate Swaps: Estimated Debt Service Requirements of Variable-Rate Debt Outstanding and Net Swap Payments

(Amounts in Thousands)

| Year | Variable-Rate Bonds Principal | Variable-Rate Bonds Interest | Interest Rate Swaps, Net | Total |
|---|---|---|---|---|
| 2008 | $ 660 | $ 11,867 | $ 400 | $ 12,927 |
| 2009 | 700 | 11,830 | 404 | 12,934 |
| 2010 | 745 | 11,790 | 408 | 12,943 |
| 2011 | 790 | 11,748 | 453 | 12,991 |
| 2012 | 845 | 11,704 | 797 | 13,346 |
| 2013 - 2017 | 5,055 | 57,748 | 1,617 | 64,420 |
| 2018 - 2022 | 9,230 | 56,107 | (675) | 64,662 |
| 2023 - 2027 | 23,250 | 51,655 | (461) | 74,444 |
| 2028 - 2032 | 169,595 | 23,702 | (176) | 193,121 |
| 2033 - 2037 | 1,370 | 37 | (4) | 1,403 |
| Total | $212,240 | $248,188 | $2,763 | $463,191 |

### Pay-Variable, Receive-Variable Interest Rate Swaps (Texas Department of Transportation)

***Objective of the Swaps:*** The Texas Department of Transportation's Texas Transportation Commission (Commission) is currently a party to three pay-variable, receive-variable Constant Maturity Swaps (CMS) associated with the Commission's State of Texas General Obligation Mobility Fund Series 2006A fixed rate bonds. These swaps exchange SIFMA rates for LIBOR rates. The swaps are expected to generate an effective lower borrowing cost to the Commission over the life of the swaps through the assumption of yield curve risk (the difference between short-term and long-term rates) and tax risk (the spread between tax-exempt rates and taxable rates).

***Terms, Fair Values and Credit Ratings:*** The terms, fair values and counterparty credit ratings related to the outstanding variable-to-

variable basis swaps as of Aug. 31, 2007, are shown in the table below. The notional amounts and amortization schedules of the swaps match those of the associated variable-rate bonds.

**Pay-Variable, Receive-Variable Interest Rate Swaps: Estimated Debt Service Requirements of Fixed-Rate Debt Outstanding and Net Swap Payments**

(Amounts in Thousands)

| Year | Fixed-Rate Bonds Principal | Fixed-Rate Bonds Interest | Interest Rate Swaps, Net | Total |
|---|---|---|---|---|
| 2008 | $ | $ 49,795 | $ (4,682) | $ 45,113 |
| 2009 | 375 | 49,795 | (5,108) | 45,062 |
| 2010 | 1,325 | 49,795 | (5,108) | 46,012 |
| 2011 | 2,275 | 49,726 | (5,108) | 46,893 |
| 2012 | 3,215 | 49,635 | (5,108) | 47,742 |
| 2013 - 2017 | 31,195 | 245,489 | (25,540) | 251,144 |
| 2018 - 2022 | 102,985 | 232,640 | (25,540) | 310,085 |
| 2023 - 2027 | 223,925 | 195,722 | (25,540) | 394,107 |
| 2028 - 2032 | 381,200 | 127,826 | (426) | 508,600 |
| 2033 - 2037 | 293,585 | 26,330 | | 319,915 |
| Total | $1,040,080 | $1,076,753 | $(102,160) | $2,014,673 |

## Risk Exposure of Swap Transactions (Texas Department of Transportation)

***Credit Risk:*** The Commission mitigates the credit risk associated with its swaps by entering into transactions with highly-rated counterparties. As shown in the table on page 93, the credit ratings of the Commission's counterparties range from AAA to AA- by S&P and Aaa to Aa3 by Moody's.

The Commission also mitigates its concentration of credit risk by diversifying its swap portfolio across several different counterparties. The Commission's three currently outstanding swaps are spread among three different counterparties, with no more than 50 percent of the total notional amount of swaps outstanding being associated with any single counterparty.

The Commission's swap agreements also contain collateralization provisions that require counterparties to post collateral in the full amount of the fair value of the swap if the counterparty's credit rating is downgraded. Only cash in the form of U.S. Dollars or U.S. Government obligations are acceptable forms of collateral. Posted collateral may be held either by the Commission or its designated third party custodian.

***Basis Risk:*** The Commission is exposed to basis risk to the extent that the interest payments on its variable-rate bonds do not match the variable-rate payments received on the associated swaps. The Commission mitigates this risk by (a) matching the notional amount and amortization schedule of each swap to the principal amount and amortization schedule of each associated variable-rate bond issue, (b) selecting an index for the variable-rate leg of each swap that is reasonably expected to closely match the interest rate resets on the associated variable-rate bonds over the life of each bond issue and (c) limiting the portion of the total portfolio that can be exposed to this risk at a given time.

***Termination Risk:*** The Commission or the counterparties may terminate any of the swaps if the other party fails to perform under the terms of the respective swap agreements. The Commission also has the right to terminate any of the swaps at any time without cause. The Commission mitigates termination risk by maintaining a strong financial standing and by maintaining sufficient reserves to cover all or part of a termination payment that might materialize.

***Rollover Risk:*** The swaps terminate on Sept. 1, 2027. Final maturity of the associated debt is April 1, 2035. The Commission accepted the rollover risk for the period beyond Sept. 1, 2027, because extending the term of the swap agreements to match the final maturity of the associated debt provided only marginal projected benefit.

***Swap Payments and Associated Debt:*** Using rates as of Aug. 31, 2007, the estimated debt service requirements of the Commission's fixed-rate bonds and associated net swap payments, assuming current interest rates and swap index relationships remain the same for their terms, are included in the table above: "Pay-Variable, Receive-Variable Interest Rate Swaps: Estimated Debt Service Requirements of Fixed-Rate Debt Outstanding and Net Swap Payments." As rates and index relationships vary in the future, so will the resulting actual interest payments and net swap payments.

***Market-Access Risk:*** Market-access risk is the risk that an entity will not be able to enter credit markets or that

credit will become more costly. This swap does not present market-access risk because the transaction does not require access to the credit market.

### Pay-Fixed, Receive-Variable Interest Rate Swaps (Texas Department of Housing and Community Affairs)

***Objective of the Swaps:*** The Department is a party to five pay-fixed, receive-variable interest rate swap agreements with three rated counterparties, UBS AG, Goldman Sachs Capital Markets, L.P. (Goldman) and Bear Stearns Financial Products, Inc. The objective of the swaps is to reduce interest rate risk of certain variable rate demand bonds. Under the terms of the agreements, the Department makes periodic fixed interest rate payments in exchange for receiving variable rate payments comparable to the rates payable on the variable rate demand bonds. The swap notional amounts amortize in accordance with the scheduled and/or anticipated reductions in the related variable rate demand bond liability. The Department is potentially exposed to loss in the event of nonperformance by the counterparties under the swap agreements. Termination of the swap agreements may result in the Department making or receiving termination payments. Each swap agreement includes optional early termination provisions granting the Department the right, but not an obligation, to terminate the interest rate swaps at par without a termination payment after an effective date.

***Terms, Fair Values and Credit Ratings:*** The terms, fair values and counterparty credit ratings related to the outstanding variable-to-fixed swaps as of Aug. 31, 2007, are shown in the table titled "Pay-Fixed, Receive-Variable Interest Rate Swaps: Estimated Debt Service Requirements of Variable-Rate Debt Outstanding and Net Swap Payments." The notional amounts and amortization schedules of the swaps match those of the associated variable-rate bonds.

***Credit Risk:*** As of Aug. 31, 2007, the Department is not exposed to credit risk on any of its outstanding swaps. The Department has entered into these transactions with highly-rated counterparties to mitigate credit risk. The swap portfolio is spread among three counterparties. Collateral agreements and insurance policy requirements contained in the swap agreements further mitigate credit risk.

***Basis Risk:*** The Department's variable-rate bond coupon payments are equivalent to the SIFMA rate. Payments received on these swaps are a function of LIBOR. As these rates converge, basis risk exposure increases.

***Rollover Risk:*** The Department is exposed to rollover risk on swap agreements which mature or may be terminated prior to the maturity of the associated debt. Bonds that are exposed to rollover risk are shown in table "Interest Rate Swaps Subject to Rollover."

***Swap Payments and Associated Debt:*** Using rates as of Aug. 31, 2007, the estimated debt service requirements of the Department's variable-rate bonds and associated net swap payments, assuming current interest rates and swap index relationships remain the same for their terms, are shown in the table "Pay-Fixed, Receive-Variable Interest Rate Swaps: Estimated Debt Service Requirements of Variable-Rate Debt Outstanding and Net Swap Payments." As rates and index relationships vary in the future, so will the resulting actual interest payments and net swap payments.

### Pay-Fixed, Receive-Variable Interest Rate Swaps (University of Texas System)

***Objective of the interest rate swap:*** In June 1999, UT executed forward-starting, floating-to-fixed rate interest rate swap agreements with J.P. Morgan Chase Bank (Morgan) and Goldman. The swap agreements were used to create a synthetic fixed-rate refunding of $80.5 million of the Board of Regents of The University of Texas System Revenue Financing System Bonds, Series 1991A and 1991B ("Refunded Bonds"), on their optional redemption date of Aug. 15, 2001 to achieve debt service savings. On May 17, 2001, the University of Texas System Board of Regents (Regents) issued its Revenue Financing System Refunding Bonds, Series 2001A, in the form of variable rate demand bonds. The swap agreements effectively change the Regents' interest rate on the Series 2001A Bonds, subject to some basis risk discussed below, to a fixed rate of 4.633 percent. The difference between the swap rate and the rates on the Refunded Bonds called Aug. 15, 2001, resulted in estimated present value debt service savings of approximately $5.6 million.

In March 2007, UT executed forward-starting, floating-to-fixed rate interest rate swap agreements (2007 Swap Agreements) with Morgan and Morgan Stanley Capital Services, Inc. (MSCS). The 2007 swap agreements are being used to hedge interest rate risk on revenue financing system bonds expected to be issued in February 2008.

***Terms, Fair Values and Credit Ratings:*** On Feb. 6, 2007, the Goldman Swap Agreement was ended and the Morgan Swap Agreement was increased to 100 percent of the notional amount. The terms, fair values and counterparty credit ratings related to the outstanding variable-to-fixed swaps as of Aug. 31, 2007, are shown in the table titled "Pay-Fixed, Receive-Variable Interest Rate Swaps: Estimated Debt Service Requirements of Variable-Rate Debt Outstanding and Net Swap Payments." The notional amounts and amortization schedules of the swaps match those of the associated variable-rate bonds. The fair value was estimated using market-standard practice, which includes a calculation of future net settlement payments required by the swap, utilizing market expectations implied by the current yield curve for interest rate swap transactions.

Pursuant to the terms of the 2007 swap agreements, the Regents have agreed to pay interest on a notional amount of $310 million at a fixed rate of 3.84 percent per annum, commencing on Feb. 15, 2008. In consideration for these payments, Morgan and MSCS agreed to pay the Regents a variable rate based on SIFMA Municipal Swap Index. The Morgan Swap Agreement and the MSCS Swap Agreement were each for 50 percent of the notional amount. The 2007 Swap Agreements are scheduled to terminate on Aug. 15, 2036. Fair value of the 2007 swap agreements at Aug. 31, 2007 was estimated at a positive $6.8 million using market-standard practice, which includes a calculation of future net settlement payments required by the swap, utilizing market expectations implied by the yield curve for interest rate swap transactions.

***Basis and Termination Risk:*** The Morgan Swap Agreement exposes the Regents to basis risk as the variable rate received under the swap agreement does not perfectly match the variable rate paid on the Series 2001A Bonds. The swap agreement may be terminated if the counterparty does not maintain a credit rating of at least Aa3 by Moody's or AA- by S&P. The swap agreement may also be terminated by Morgan if the Regents do not maintain a credit rating of at least Aa3 by Moody's or AA- by S&P.

The 2007 swap agreements expose the Regents to termination risk. Each 2007 swap agreement may be terminated if the respective counterparty does not maintain a credit rating of at least Baa2 by Moody's or BBB by S&P. The swap agreement may also be terminated by Morgan or MSCS if the Regents do not maintain a credit rating of at least Baa2 by Moody's or BBB by S&P.

***Swap Payments and Associated Debt:*** Using rates as of Aug. 31, 2007, the estimated debt service requirements of UT's variable-rate bonds and associated net swap payments, assuming current interest rates and swap index relationships remain the same for their terms, are shown on the table "Pay-Fixed, Receive-Variable Interest Rate Swaps: Estimated Debt Service Requirements of Variable-Rate Debt Outstanding and Net Swap Payments." As rates and index relationships vary in the future, so will the resulting actual interest payments and net swap payments. As of Aug. 31, 2007, there was $23.8 million of the Series 2001A Bonds outstanding and the notional amount of the swap agreements was $23.4 million.

## Pay-Variable, Receive-Variable Interest Rate Swaps (University of Texas System)

***Objective of the Swaps:*** In May 2006, UT executed basis swap agreements with Merrill Lynch Capital Services (Merrill Lynch) and Bank of America. The swap agreements are associated with the Board of Regents of The University of Texas System Revenue Financing System Bonds, Series 2006B to lower the net cost of borrowing.

***Terms, Fair Values and Credit Ratings:*** On Feb. 27, 2007, UT terminated both basis swaps and received an aggregate termination payment of $5.25 million from Merrill Lynch and Bank of America.

## NOTE 7
# Capital Leases

The state has entered into long-term capital leases to buy certain assets. The capital assets are recorded at the present value of the future minimum lease payments at the inception of the lease plus any cash paid or trade-in value received.

For governmental and business-type activities, the assets and liabilities are recorded in the government-wide financial statements.

The table below is a summary of the future minimum lease payments for capital leases.

## Future Capital Lease Payments

August 31, 2007 (Amounts in Thousands)

| | Primary Government | | | | | | Discretely Presented Component Units | | |
|---|---|---|---|---|---|---|---|---|---|
| | Governmental Activities | | | Business-Type Activities | | | | | |
| Year | Principal | Interest | Total Future Minimum Lease Payments | Principal | Interest | Total Future Minimum Lease Payments | Principal | Interest | Total Future Minimum Lease Payments |
| 2008 | $ 1,425 | $ 681 | $ 2,106 | $ 2,554 | $ 534 | $ 3,088 | $ 120 | $ 5 | $ 125 |
| 2009 | 1,373 | 584 | 1,957 | 2,008 | 442 | 2,450 | 29 | 1 | 30 |
| 2010 | 1,458 | 489 | 1,947 | 1,620 | 361 | 1,981 | 1 | | 1 |
| 2011 | 1,548 | 390 | 1,938 | 1,347 | 287 | 1,634 | | | |
| 2012 | 1,652 | 285 | 1,937 | 733 | 229 | 962 | | | |
| 2013 - 2017 | 3,104 | 184 | 3,288 | 2,991 | 714 | 3,705 | | | |
| 2018 - 2022 | | | | 1,579 | 301 | 1,880 | | | |
| 2023 - 2027 | | | | 684 | 77 | 761 | | | |
| 2028 - 2032 | | | | 63 | 1 | 64 | | | |
| Total | $ 10,560 | $ 2,613 | $ 13,173 | $ 13,579 | $ 2,946 | $ 16,525 | $ 150 | $ 6 | $ 156 |

The following table is an analysis of the property acquired under capital leases by asset category at Aug. 31, 2007.

## Assets Under Capital Leases

(Amounts in Thousands)

| | Primary Government | | | | Discretely Presented Component Units* | |
|---|---|---|---|---|---|---|
| | Governmental Activities | | Business - Type Activities | | | |
| Type | Assets under Capital Lease | Accumulated Depreciation | Assets under Capital Lease | Accumulated Depreciation | Assets under Capital Lease | Accumulated Depreciation |
| Land | $ | $ | $ 456 | $ | $ | $ |
| Buildings | 18,084 | 10,193 | 12,059 | 1,493 | | |
| Furniture and Equipment | 4,390 | 3,048 | 8,162 | 2,521 | | |
| Vehicles, Boats, etc. | 91 | 36 | 375 | 156 | | |
| Total | $ 22,565 | $ 13,277 | $ 21,052 | $ 4,170 | $ 0 | $ 0 |

* There is no balance because the original cost of each asset reported under capital leases was below the capital asset threshold.

## NOTE 8
## Operating Leases

Included in rental expenditures or expenses are assets leased on a long-term basis that have been classified as operating leases. The following is a schedule of minimum future rentals on noncancelable operating leases as of Aug. 31, 2007.

### Noncancelable Operating Leases
August 31, 2007 (Amounts in Thousands)

| Year | Minimum Future Lease Payments: Primary Government | Minimum Future Lease Payments: Component Units |
|---|---|---|
| 2008 | $196,063 | $ 1,540 |
| 2009 | 167,060 | 1,070 |
| 2010 | 141,681 | 877 |
| 2011 | 112,673 | 629 |
| 2012 | 87,085 | 322 |
| 2013 – 2017 | 138,113 | 911 |
| 2018 – 2022 | 6,757 | |
| 2023 – 2027 | 1,512 | |
| 2028 – 2032 | 1,370 | |
| 2033 – 2037 | 733 | |
| Total | $853,047 | $ 5,349 |

## NOTE 9
## Retirement Systems

The state of Texas has three public employee retirement systems (PERS) that administer seven defined benefit plans. All defined benefit plans are included in the state's financial statements as pension trust funds. Amounts and types of securities held by the retirement systems are included in Note 3. The three agencies that administer the plans; the Employees Retirement System of Texas (ERS), the Teacher Retirement System of Texas (TRS) and the Fire Fighters' Pension Commission (FPC); issue separate financial reports. These reports are audited as individual entities with a separate opinion issued for each and may be obtained from the following:

Employees Retirement System of Texas
P.O. Box 13207
Austin, Texas 78711-3207

Teacher Retirement System of Texas
1000 Red River Street
Austin, Texas 78701-2698

Fire Fighters' Pension Commission
920 Colorado Street, 11th Floor
Austin, Texas 78701-2332

The state has also established a defined contribution plan as authorized by Tex. Gov. Code, Chapter 830, an optional retirement program for agencies and institutions of higher education. All employees employed in a position that is eligible for the TRS pension plan are automatically enrolled in that plan on their first day of employment. Full-time faculty, librarians and certain professionals and administrators employed in public higher education are eligible to elect the Optional Retirement Program (ORP) in lieu of the TRS pension plan. The selection made is a one-time irrevocable choice. ORP is an individualized defined contribution plan in which each participant selects from a variety of investments offered by several companies through annuity contracts or mutual fund investments. With the purchase of these individual contracts, the state has effectively transferred the obligation for the payment of benefits to the company. In the event of the insurance or annuity company's insolvency, the state does not guarantee benefits. The contributory percentages of participant salaries provided by each participant and the state were 6.65 percent for the participant and 6 percent for the state. In addition, the Texas Higher Education Coordinating Board and institutions of higher education contributed 2.5 percent from operating funds for this retirement program. For the year ended Aug. 31, 2007, the state's expense/contribution was $107.2 million.

GASB Statement No. 26, *Financial Reporting for Postemployment Healthcare Plans Administered by Defined Benefit Pension Plans*, is not applicable for the state of Texas since the health care plans are not administered by the pension trust funds.

## DESCRIPTION OF PLANS AND FUNDING POLICY

### Employees Retirement System of Texas

The Board of Trustees of ERS is the administrator of four pension plans. Each of these plans is considered to be a single-employer defined benefit pension plan.

- The Employees Retirement System of Texas Plan (ERS Plan);
- The Law Enforcement and Custodial Officer Supplemental Retirement Plan (LECOS); and
- The Judicial Retirement System of Texas Plan One and Plan Two (JRS).

Each plan provides a standard monthly benefit in a life annuity at retirement as well as death and disability benefits for members. A Partial Lump Sum Payment Option is available to members of the employee class, the elected class and law enforcement and custodial officers. A one-time partial lump sum of up to three years of standard annuity at retirement can be taken and the annuity is reduced for life. The benefit and contribution provisions are authorized by state law and may be amended by the Legislature. Contribution requirements are not actuarially determined, but are set by legislation, except for the JRS Plan Two under which state contribution rates are actuarially determined every even-numbered year for the next biennium.

The ERS audited report contains the actuarial valuations as of Aug. 31, 2007, along with an actuarial letter dated Nov. 27, 2007. No subsequent legislative action that would negatively affect their certification of actuarial soundness of the funds was noted.

The ERS Plan, established by the Tex. Gov. Code, Title 8, Subtitle B, Chapters 811-815 covers elected class members, employee class members, commissioned peace officers and custodial officers. The funding policy requires monthly contributions by both the state and employees (see "Funding Information, Actuarial Methods and Assumptions" table). The monthly benefit is determined by the years and months of service multiplied by a statutorily determined percentage and may vary by class.

- The elected class members are vested after eight years of credited service and may retire at age 50 with 12 years of service or at age 60 with eight years of service. The statutory percentage is equal to 2.3 percent of the current state salary of a district judge.
- The employee class includes all employees and appointed officers of the state and excludes independent contractors and their employees and employees covered by TRS and JRS. Employee class retirement benefits vest after five years of credited service and employees may retire at age 60 with five years of service or at any age when the combination of age and service (including months) total 80. The monthly standard annuity equals the statutory percentage of 2.3 percent times the average of the highest 36 months of compensation. The minimum monthly standard annuity is $150; the maximum standard annuity is 100 percent of the average monthly compensation.
- Commissioned peace officers and custodial officers may retire at age 55 with 10 years of service.

LECOS, established under Tex. Gov. Code, Chapter 814.107, covers statutorily certified custodial officers employed by the Department of Criminal Justice, including the Board of Pardons and Paroles, who have contact with inmates of that institution. The fund also covers other commissioned state agency law enforcement officers who are recognized by the Commission on Law Enforcement Officer Standards and Education.

Benefits vest after 20 years of credited service. Covered employees may retire at age 50, if vested, or the age at which the sum of the member's age and amount of service credit in the employee class equals 80. A member may receive reduced benefits upon completing 20 years of service, regardless of age. The monthly benefit at retirement is payable in a life only form of annuity. The monthly annuity is equal to 2.8 percent of average monthly compensation multiplied by years of service. Average monthly compensation is the average of the highest 36 months of salary out of the member's established service. The minimum monthly standard annuity is $150; the maximum standard annuity is 100 percent of the average monthly compensation.

There are no member contributions for the LECOS fund and it has not received funding from the state since Aug. 31, 1993. Annual actuarial valuations of the fund are

performed to monitor the adequacy of the financing arrangement. During the last legislative session, state funding was appropriated for this fund for the biennium ending Aug. 31, 2009 based on 1.59 percent of covered payroll for LECOS members.

JRS covers judges, justices and commissioners of the Supreme Court, the Court of Criminal Appeals, the Court of Appeals, district courts and certain commissions to a court. Members prior to Sept. 1, 1985, participate in Plan One and all others participate in Plan Two. Participants in both plans may retire at age 65 with 10 years of service with at least the last year being continuous and currently holding judicial office, or at age 65 with 12 years of service. Members of Plan One and Plan Two may retire at any age with 20 years of service. Prior to Sept. 1, 2005, members of Plan Two were restricted to retirement at age 55 with 20 years of service. Participants in both plans are eligible for reduced early service retirement benefits once they attain age 60 and complete 10 years of service if the member currently holds judicial office with at least the last year being continuous or at age 60 with 12 years of service.

The monthly benefit at retirement is payable in a life only form of annuity. The monthly benefit for members of both plans is equal to 50 percent of the salary for the position from which the member retired and is increased by 10 percent of final compensation if in office within one year of benefit commencement.

Tex. Gov. Code, Title 8, Subtitle D, Chapter 835 requires employees to contribute 6 percent of their compensation and the state to make appropriations from the general revenue fund sufficient to administer JRS Plan One. The contribution requirements are not actuarially determined since the plan is not funded in advance. There are actuarial valuations and an actuarial cost method only for fulfilling GASB Statement No. 25, *Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans*, and GASB Statement No. 27, *Accounting for Pensions by State and Local Governmental Employers*, requirements.

The funding policy of JRS Plan Two is established by Tex. Gov. Code, Title 8, Subtitle E, Chapter 840. The state's contribution to the plan is determined each even-numbered year for the next biennium and is based upon an actuarial valuation. Significant actuarial assumptions are the same as those used to compute the net pension benefit.

### Teacher Retirement System of Texas

TRS administers retirement, proportional retirement, disability annuities and death and survivor benefits to employees and beneficiaries of employees of the public school system of Texas (the Plan). TRS is a multiple-employer PERS. It is a cost-sharing PERS with one exception: risks and costs are generally not shared by the employer (unless the employer is a senior college, medical school or a state agency in which case the employer is considered the state of Texas) but are the liability of the state of Texas. The Plan is reported under the sole-employer provisions of GASB 27, since the state of Texas is legally responsible for a significant portion of the annual required contributions. The benefit and contribution provisions of the Plan are authorized by state law and may be amended by the Legislature.

All employees of public, state-supported educational institutions in Texas who are employed for one-half or more of the standard work load and who are not exempted from membership under Tex. Gov. Code, Title 8, Subtitle C, Chapter 822 are covered by the Plan.

A member is vested after five years of creditable service and is eligible to retire at a future date and receive a lifetime monthly annuity. The normal service retirement is at age 65 with five years of credited service or when the sum of the member's age and years of credited service equals at least 80 years. The service age requirement for early retirement is age 55 with five years of credited service or any age below 50 with 30 years of credited service. The standard life annuity benefit formula is 2.3 percent of the average of the five highest annual salaries multiplied by the years of service. For members who are "grandfathered," the three highest annual salaries are used. At normal retirement age, the minimum monthly standard annuity is the greater of $150 or the formula standard annuity. Total payments shall in no case be less than accumulated contributions at retirement.

Law changes from the 2007 legislative session modified the state contribution rate for the TRS plan. Effective Sept. 1, 2007, the state contribution rate was increased from 6.0 percent to 6.58 percent of pay. The new law also requires

the state contribution rate to be at least equal to the member contribution rate.

At Aug. 31, 2007, the number of participating employing districts was as follows.

## Employing Districts

| | |
|---|---|
| Public Schools, Service Centers and Charter Schools | 1,243 |
| Colleges, Universities and Medical Schools | 102 |
| Educational State Agencies | 2 |
| Total | 1,347 |

Contribution requirements are not actuarially determined, but are legally established each biennium pursuant to the following state funding policy.

The Texas Constitution requires the Legislature to establish a member contribution rate of not less than 6 percent of the member's annual compensation and a state contribution rate of not less than 6 percent and not more than 10 percent of the aggregate annual compensation of all members of TRS during that fiscal year. A state statute prohibits benefit improvements or contribution reductions if, as a result of the particular action, the time required to amortize TRS' unfunded actuarial liabilities would be increased to a period that exceeds 31 years or, if the amortization period already exceeds 31 years, the period would be increased by such action.

TRS offers to all service and eligible disability retirees several annuity payment options that reduce the standard annuity by application of age-related actuarial reduction factors in order to continue payment to a beneficiary after the retiree's death. The available options include 100, 75 and 50 percent joint and survivor annuities and five and 10 year guaranteed period annuities.

TRS also offers two other annuity payment options:

- The Deferred Retirement Option Plan (DROP)
  DROP allows members to freeze their standard annuity and, instead of retiring, to have a portion of the frozen standard annuity deposited into a DROP account while continuing to work for a TRS-affiliated employer. Members may elect to participate in the DROP program for up to five years. The plan was closed for new participants effective Dec. 31, 2005.
- A Partial Lump-Sum Cash Option (PLSO)
  PLSO reduces the standard monthly annuity and provides a cash lump sum distribution. Members may participate in the PLSO if they are eligible for service retirement and meet the Rule of 90 (age and years of service credit equal at least 90), are not participating in the DROP plan and are not retiring with disability benefits.

## Annual Pension Cost and Net Pension Obligation

The state's annual pension cost and net pension obligation for plans subject to sole-employer provisions of GASB 27 for fiscal 2007 are presented below.

## Fire Fighters' Pension Commission

FPC is the administrator of two pension plans.

- The Texas Emergency Services Retirement System (TESRS) Fund and
- The Texas Local Fire Fighters Retirement Act (TLFFRA).

TESRS is a cost-sharing multiple-employer pension plan established and administered by the state of Texas to provide pension benefits for emergency services personnel who serve without pay. At Aug. 31, 2007, there were 180 member fire departments participating in the pension system.

The statutory authority for TESRS is found in Tex. Gov. Code, Title 8, Chapter 865.014. The governing bodies of participating departments are required to contribute at least the minimum prescribed amount per month for each active member. No contributions are required by individual members

### Annual Pension Cost and Net Pension Obligation

(Amounts in Thousands)

| | ERS | LECOS | JRS1 | JRS2 | TRS* | FPC** |
|---|---|---|---|---|---|---|
| Annual Required Contribution, ARC | $ 370,496 | $ 6,956 | $ 28,966 | $ 10,925 | $1,721,224 | $ 2,753 |
| Interest on Net Pension Obligation, NPO | (3,093) | | 6,861 | (601) | 6,148 | N/A |
| Adjustment to ARC | 2,196 | | (7,330) | 824 | (4,918) | N/A |
| Annual Pension Cost | 369,599 | 6,956 | 28,497 | 11,148 | 1,722,454 | 2,753 |
| Employer Contributions Made | 329,524 | 0 | 29,029 | 10,909 | 1,471,131 | 2,753 |
| Increase (Decrease) in NPO | 40,075 | 6,956 | (532) | 239 | 251,323 | N/A |
| Net Pension Obligation/(Asset), September 1, 2006 | (38,666) | 0 | 85,757 | (7,509) | 76,859 | N/A |
| Net Pension Obligation/(Asset), August 31, 2007*** | $ 1,409 | $ 6,956 | $ 85,225 | $ (7,270) | $ 328,182 | N/A |

* The sole-employer provisions of GASB Statement No. 27 applies to TRS.

** An NPO calculation is not applicable for the FPC since contributions are received from member fire departments. The state's contribution, if any, would be insignificant. The ARC and Employer Contributions Made are from the 2006 actuarial valuation.

*** See "Funding Information, Actuarial Methods and Assumptions" table for actuarial assumptions used in determining cost and obligation.

### Retirement Systems' Membership

| | ERS* | LECOS* | JRS1* | JRS2* | TRS** | FPC*** |
|---|---|---|---|---|---|---|
| Retirees and Beneficiaries Currently Receiving Benefits | 70,455 | 5,805 | 488 | 116 | 265,307 | 1,866 |
| Terminated Employees Entitled to Benefits But Not Yet Receiving Them | 67,803 | 27 | 15 | 115 | 52,416 | 1,947 |
| Current Employees: Vested and Non-Vested | 132,497 | 36,413 | 24 | 515 | 895,777 | 4,410 |
| Total Members | 270,755 | 42,245 | 527 | 746 | 1,213,500 | 8,223 |

* Totals are from actuarial valuations as of Aug. 31, 2007.

** Totals are from the audited agency annual financial report.

*** This total does not include the 588 retirees and beneficiaries from the TLFFRA (Texas Local Firefighters Retirement Act) plan as of Aug. 31, 2007.

## Funding Information, Actuarial Methods and Assumptions

(Amounts in Thousands)

| | ERS | LECOS | JRS1 | JRS2 | TRS | FPC* |
|---|---|---|---|---|---|---|
| Contribution Rates | | | | | | |
| Employees | 6.0% | 0.0% | 6.0% | 6.0% | 6.4% | N/A |
| Legislators | 8.0% | N/A | N/A | N/A | N/A | N/A |
| Employer** | 6.5% | 0.0% | N/A | 16.8% | 6.0% | N/A |
| Annual Pension Cost | $369,599 | $6,956 | $28,497 | $11,148 | $1,722,454 | $2,753 |
| Employer Contributions Made*** | $329,524 | $0 | $29,029 | $10,909 | $1,471,131 | $2,753 |
| Actuarial Valuation Date | August 31, 2007 | August 31, 2007 | August 31, 2007 | August 31, 2007 | August 31, 2007 | August 31, 2006 |
| Actuarial Cost Method | Entry Age | Entry Age | Entry Age | Entry Age | Entry Age Normal | Entry Age |
| Amortization Method | Level Percent Open | Level Percent Open | Level Dollar Open | Level Percent Open | Level Percent Open | Level Dollar Open |
| Remaining Amortization Period of Unfunded Liability | 30 years | 30 years | 30 years | 4.3 years**** | 27.4 years | 30 years |
| Asset Valuation Method | 5-year Smoothed Fair Value | 5-year Smoothed Fair Value | N/A | 5-year Smoothed Fair Value | 5-year Smoothed Market | 5-year Smoothed Market |
| Actuarial Assumptions: | | | | | | |
| Investment Rate of Return | 8.0% | 8.0% | 8.0% | 8.0% | 8.0% | 8.0% |
| Projected Salary Increases | 0.0%-14.0% | 6.0%-14.0% | 4.0% | 4.0% | 4.25%-26.4% | N/A |
| Includes Inflation at | 4.0% | 4.0% | 4.0% | 4.0% | 3.0% | 3.8% |
| Cost-of-Living Adjustments | None-Employee 4.0%-Elected | None | 4.0% | None | None | None |

* Contributions and benefits are not based on the salaries of members.

** The plan for JRS1 is closed to new participants and the state contributions are based upon benefits paid to participants during the year. Contribution requirements for JRS2 are actuarially determined each even-numbered year. TRS and ERS contribution requirements are based on actuarial evaluations as established by state statute.

*** The 79th Legislature addressed funding problems for FPC with an appropriation for additional funding in the 2006-07 biennium.

**** The amortization period was calculated based on estimated fiscal 2008 covered payroll. At the end of fiscal 2008 the ARC and the amortization period will be recalculated based on actual 2008 covered payroll.

of participating departments. Additional contributions may be made by a governing body to pay for granting credit for service before the department began participating in TESRS. The state may also be required to make a limited amount of annual contributions to make the fund actuarially sound. The contributions may not exceed the amount of one-third of the total of all contributions by governing bodies in one year. The state is not an employer of the TESRS plan therefore, the sole-employer reporting provisions of GASB 27 for net pension obligation calculations are not applicable.

Eligible members include volunteer emergency service personnel who are members in good standing with a qualifying fire-fighting unit. Effective Jan. 1, 2007, the TESRS board amended the vesting and reduced the compounded amount paid for each year of service over 15 years. The TESRS board protected currently vested members by "grandfathering" vested accrued benefits as of Dec. 31, 2006.

Through Dec. 31, 2006, a current member became vested upon completing at least five years of qualified service. These members were vested, beginning with the fifth year of service at 5 percent per year of service for the first 10 years and 10 percent for each of the next five years of service.

Effective Jan. 1, 2007, a member must have at least ten years of qualified service to become vested. Those members

are vested at 50 percent and accrue an additional 10 percent for each of the next five years of service.

Vested members are eligible to receive a pension for life starting at age 55 that is equal to six times the average contribution rate paid by the governing entity over the member's period of qualified service. For years of service in excess of 15 years, this monthly benefit is increased at the rate of 7 percent compounded annually for "grandfathered" members, or 6.2 percent for members vested under the amended Jan. 1, 2007, TESRS board rules.

Actuarial valuations are performed biennially. Death and disability benefits are dependent on whether or not the member was engaged in the performance of duties at the time of death or disability. Death benefits include a lump-sum amount and continuing monthly payments to a member's spouse and dependents.

The member fire department contributions to the fund for the years ending Aug. 31, 2007, 2006 and 2005, were $2.5 million, $2.1 million and $1.5 million, respectively, equal to the yearly statutorily required contributions.

TLFFRA, established by statute, is a pay-as-you-go agent multiple-employer plan. Because actuarial valuations are not obtained, the TLFFRA is not presented on the Schedule of Funding Progress. It is not cost beneficial to obtain

## Schedule of Funding Progress

(Amounts in Thousands)

| Actuarial Valuation Date | Actuarial Value of Assets (a) | Actuarial Accrued Liability (AAL) (b) | Excess of Assets over AAL (Unfunded AAL) (a) - (b) | Funded Ratio (a)/(b) | Covered Payroll (c) | Excess/UAAL as a Percentage of Covered Payroll ((a-b)/c) |
|---|---|---|---|---|---|---|
| Employees Retirement System (ERS) | | | | | | |
| 08/31/07 | $ 22,938,947 | $ 23,987,165 | $ (1,048,218) | 95.6% | $ 5,253,723 | (20.0)% |
| 08/31/06 | 21,780,437 | 22,884,917 | (1,104,480) | 95.2% | 5,051,330 | (21.9)% |
| 08/31/05 | 20,835,469 | 21,969,670 | (1,134,201) | 94.8% | 4,842,525 | (23.4)% |
| Law Enforcement and Custodial Officer Supplemental Retirement (LECOS) | | | | | | |
| 08/31/07 | $ 747,765 | $ 762,666 | $ (14,901) | 98.0% | $ 1,360,819 | (1.1)% |
| 08/31/06 | 720,307 | 708,437 | 11,870 | 101.7% | 1,279,463 | 0.9% |
| 08/31/05 | 698,814 | 677,953 | 20,861 | 103.1% | 1,283,815 | 1.6% |
| Judicial Retirement System Plan One (JRS1) | | | | | | |
| 08/31/07 | $ 0 | $ 312,852 | $ (312,852) | 0.0% | $ 2,777 | (11,265.8)% |
| 08/31/06 | 0 | 325,977 | (325,977) | 0.0% | 5,138 | (6,344.4)% |
| 08/31/05 | 0 | 327,145 | (327,145) | 0.0% | 5,284 | (6,191.2)% |
| Judicial Retirement System Plan Two (JRS2) | | | | | | |
| 08/31/07 | $ 211,933 | $ 220,884 | $ (8,951) | 95.9% | $ 64,654 | (13.8)% |
| 08/31/06 | 186,400 | 198,840 | (12,440) | 93.7% | 62,306 | (20.0)% |
| 08/31/05 | 164,231 | 182,311 | (18,080) | 90.1% | 60,775 | (29.7)% |
| Teacher Retirement System of Texas (TRS) | | | | | | |
| 08/31/07 | $ 103,419,088 | $ 115,963,722 | $ (12,544,634) | 89.2% | $ 31,114,096 | (40.3)% |
| 08/31/06 | 94,217,922 | 107,911,459 | (13,693,537) | 87.3% | 28,397,283 | (48.2)% |
| 08/31/05 | 89,298,813 | 102,494,536 | (13,195,723) | 87.1% | 25,956,807 | (50.8)% |

| Actuarial Valuation Date | Actuarial Value of Assets (a) | Actuarial Accrued Liability (AAL) (b) | Excess of Assets over AAL (Unfunded AAL) (a) - (b) | Funded Ratio (a)/(b) | Total Members Covered (not rounded) | Excess/UAAL Per Member Covered (not rounded) |
|---|---|---|---|---|---|---|
| Texas Emergency Services Retirement System (TESRS) | | | | | | |
| 08/31/06* | $ 42,268 | $ 58,083 | $ (15,815) | 72.8% | 8,061 | 1,962 |
| 08/31/04 | 38,141 | 51,567 | (13,426) | 74.0% | 7,994 | 1,680 |
| 08/31/02* | 32,797 | 45,976 | (13,179) | 71.3% | 7,669 | 1,718 |

* Actuarial assumptions and methodology were changed for the Aug. 31, 2002 and the Aug. 31, 2006 valuation.

valuations and the TLFFRA assets are less than 1 percent of the TESRS and TLFFRA plans combined.

Upon election, a department under TLFFRA can merge with the TESRS plan. At Aug. 31, 2007, there were 114 plans merged into the TESRS plan. Benefit determinations for these plans are determined by each local governing board. Members under both plans are eligible for retirement service at age 55 with five years of service credited in the retirement system. Monthly benefits payable for service retirement is six times the average contribution rate per member. Authority for contributions is established by statute. Members vested under the TLFFRA plan will be paid by the Commission with funds received from the local governing bodies on a pay-as-you-go basis. The liabilities of the TLFFRA pension plan are always equal to the assets and, therefore, there is no fund balance.

Contributions are not actuarially determined and the state has no legal obligation for benefit payments. As of Aug. 31, 2007, membership consisted of 588 retirees and beneficiaries.

### Trend Information

Trend information gives an indication of the progress made in accumulating sufficient assets to pay benefits when due.

Included in the audited financial reports for the Employees Retirement System of Texas, the Teacher Retirement System of Texas and the Fire Fighters' Pension Commission are:

(1) Schedules of funding progress that include historical trend information about the actuarially determined funded status of the plan from a long-term on-going plan perspective and the progress made in accumulating sufficient assets to pay benefits when due.

(2) Schedules of employer contributions that include historical trend information about the Annual Required Contributions (ARC) of the employer and the contributions made by the employers in relation to the ARC.

The table on the previous page presents the funding progress for the three most recent actuarial valuations of each plan. The table below presents the three-year trend information regarding annual pension cost and net pension obligation of the plans. The TLFFRA plan which is not funded in advance is not included in the funding progress or the three-year trend information tables.

## Three–Year Trend Information

(Amounts in Thousands)

| Fiscal Year Ending | Annual Pension Cost (APC) | Percentage of APC Contributed | Net Pension Obligation |
|---|---|---|---|
| Employees Retirement System (ERS) | | | |
| 08/31/07 | $ 369,599 | 89.2% | $ 1,409 |
| 08/31/06 | 360,224 | 87.8% | (38,666) |
| 08/31/05 | 318,045 | 86.8% | (82,692) |
| Law Enforcement and Custodial Officer Supplemental Retirement (LECOS) | | | |
| 08/31/07 | $ 6,956 | 0.0% | $ 6,956 |
| 08/31/06 | 0 | 0.0% | 0 |
| 08/31/05 | 0 | 0.0% | 0 |
| Judicial Retirement System Plan One (JRS1) | | | |
| 08/31/07 | $ 28,497 | 101.9% | $ 85,225 |
| 08/31/06 | 27,239 | 101.6% | 85,757 |
| 08/31/05 | 22,061 | 101.1% | 86,182 |
| Judicial Retirement System Plan Two (JRS2) | | | |
| 08/31/07 | $ 11,148 | 97.9% | $ (7,270) |
| 08/31/06 | 9,938 | 101.1% | (7,509) |
| 08/31/05 | 5,582 | 149.9% | (7,395) |
| Teacher Retirement System of Texas (TRS) | | | |
| 08/31/07 | $1,722,454 | 85.4% | $ 328,182 |
| 08/31/06 | 1,593,347 | 83.6% | 76,859 |
| 08/31/05 | 1,525,025 | 82.5% | (184,387) |
| Texas Emergency Services Retirement System (TESRS)* | | | |
| 08/31/06 ** | $ 2,753 | 100.0% | N/A |
| 08/31/04 | 2,897 | 65.0% | N/A |
| 08/31/02 ** | 1,768 | 100.0% | N/A |

* TESRS is not subject to NPO calculation since the state's contributions are insignificant.

** Actuarial assumptions and methodology were changed for the Aug. 31, 2002 valuation and the Aug. 31, 2006 valuation.

## Note 10
## Deferred Compensation

The state of Texas offers to all state employees two deferred compensation plans. One is established in accordance with Internal Revenue Code Section 457. The second is established in accordance with Internal Revenue Code Section 401(k). All costs of administering and funding these programs are the responsibility of plan participants. The assets of the two plans remain the property of the contributing employees and are not presented in the accompanying

financial statements. The state makes no contributions to either plan, the assets do not belong to the state and the state has no liability related to the plans.

## NOTE 11
## Postemployment Health Care and Life Insurance Benefits

In addition to providing pension benefits, four state entities administer programs which provide health care and life insurance benefits for retired employees, their spouses and beneficiaries. These Other Post-Employment Benefits (OPEB) are authorized by statute and contributions are determined by the General Appropriations Act.

The Employees Retirement System (ERS) administers a program that provides benefits to retirees of state agencies (including Teacher Retirement System employees), state universities (not part of the University of Texas and Texas A&M University systems) and other non-state entities as established by the Legislature. Eligible participants include retirees who retired with at least 10 years of service to eligible entities. The State Retiree Health Plan (SRHP), a cost-sharing multiple-employer defined benefit plan with 58 participating employers, provides for a continuance in health care and life insurance coverage at retirement. Currently, the state pays 100 percent of eligible retiree health insurance premiums and 50 percent of dependents premiums. Benefit and contribution provisions of the SRHP are authorized by state law and may be amended by the Legislature.

The financial statements of the SRHP are reported using the accrual basis of accounting. Contributions are recognized when due, pursuant to state law. Benefits and refunds of contributions are recognized when due and payable in accordance with the terms of the plan.

Investments of the SRHP are reported at fair value. The fair value is based on published market prices and quotations from major investment brokers at current exchange rates, as available, plus accrued interest and dividends. For investments where no readily ascertainable market value exists, management, in consultation with their investment advisors and the Master Trust Custodian, determines the fair values for the individual investments.

The University of Texas System and the Texas A&M University System provide separate post-employment health care and life insurance coverage to their retirees, surviving spouses and beneficiaries under two single-employer defined benefit plans. Many of the employees under these university systems may become eligible for health and life insurance benefits as retired employees if they meet certain age and service requirements. The state contribution provisions under these plans are currently the same as under the SRHP.

For the year ended Aug. 31, 2007, the state made monthly contributions for health care and life insurance. Contribution rates are shown below. Costs are estimated by an actuary for claims expected to be paid during the year. The retiree contributes any premium over and above state contributions.

### State Contribution Rates – Retiree Health and Basic Life Premium

For the Fiscal Year Ended August 31, 2007

| Level of Coverage | ERS | Texas A&M University | University of Texas* |
|---|---|---|---|
| Retiree Only | $361 | $361 | $348 |
| Retiree/Spouse | $567 | $512 | $531 |
| Retiree/Children | $498 | $455 | $465 |
| Retiree/Family | $705 | $587 | $649 |

* The amounts shown for the University of Texas represent self-funded insurance. The monthly contribution per full-time retirees participating in the fully insured programs (HMO's) ranged from $339 to $746 depending upon the region and the level of coverage selected.

The Teacher Retirement System (TRS) administers a program that provides benefits to public school district retirees with at least 10 years of service. The Texas Public School Retired Employees Group Insurance Program (TRS-Care), a cost-sharing multiple-employer defined benefit plan with 1,242 participating employers, provides a free basic level of coverage for eligible retirees and optional coverage for eligible retirees and their dependents. Basic coverage includes participation in a major medical group health insurance plan with deductibles based upon enrollment in Part A or Part B of Medicare. Funding for free basic coverage is provided based on public school district payroll. The state and active school employee contribution rates are 1 percent

and 0.65 percent of school district payroll, respectively, with school districts also contributing 0.55 percent of payroll. The state is not an employer in TRS-Care.

The financial statements for TRS-Care are reported using the accrual basis of accounting. Contributions are recognized in the period in which amounts are due, pursuant to state law. Benefits and refunds of contributions are recognized when due and payable in accordance with the terms of the plan.

Investments of TRS-Care are reported at fair value. The fair value of investments is based on published market prices and quotations at current exchange rates. For investments where no readily ascertainable market value exists, management has determined fair values for the individual investments based on the capital account balance at the closest available reporting period, adjusted for subsequent contributions, distributions, management fees and reserves.

The cost of state retirees' health care and life insurance benefits and TRS-Care is financed on a pay-as-you-go-basis. The expenditures are recognized when reimbursements are made for claims paid by non-state entities or when premiums are paid.

Expenditures recognized in fiscal 2007 for retiree health and life insurance benefits paid for by the state are shown as follows.

## Post Employment Health Care and Life Insurance

For the Fiscal Year Ended August 31, 2007

| Benefits Provided Through | Number of Retirees* | Cost (In Thousands)** |
|---|---|---|
| Employees Retirement System | 75,958 | $422,715 |
| University of Texas System | 15,905 | 44,548 |
| Texas A&M University System | 6,365 | 29,664 |
| Teacher Retirement System (Public School District Employees) | 153,865 | 238,191 |
| Total | 252,093 | $735,118 |

* Total number of retirees, including non-state retirees. Dependents are counted as one with the participant retiree.

** Costs paid for by the state, excludes costs paid by non-state employers.

In fiscal 2007 the ERS and TRS OPEB plans received payments from the federal government pursuant to the retiree drug subsidy provisions of Medicare Part D. GASB Statement No. 24, *Accounting and Financial Reporting for Certain Grants and Other Financial Assistance*, requires that these on-behalf payments be recorded as revenues and expenses of each plan. The total fiscal 2007 federal contributions for Medicare Part D were $28.6 million for ERS and $52.3 million for TRS.

Administrators of the ERS and TRS OPEB plans implemented GASB Statement No. 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, in fiscal 2007. Implementation required actuarial valuations of the ERS and TRS OPEB plans. Implementation of that statement does not require the state to change its current funding of OPEB, which is on a pay-as-you-go basis. The Legislature determines the level of state funding for the ERS and TRS OPEB plans and has no continuing legal obligation to provide benefits beyond each fiscal year. Actuarial information related to these plans is included in the ERS and TRS financial reports. These reports are individually audited with a separate opinion issued for each and may be obtained from the following:

Employees Retirement System of Texas
P.O. Box 13207
Austin, Texas 78711-3207

Teacher Retirement System of Texas
1000 Red River Street
Austin, Texas 78701-2698

# Note 12
# Interfund Activity and Transactions

Interfund activity refers to financial interactions between funds and/or blended component units and is restricted to internal events. Interfund transactions under GASB Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*, refer to financial interactions with legally separate entities, i.e., discrete component units and other governments, and are restricted to external events.

## Reciprocal Interfund Activity

Interfund loans are reciprocal interfund activity between funds and blended component units with a requirement for repayment. These loans are reported as interfund receivables/payables, classified as either current or noncurrent.

Interfund services are sales and purchases of goods and services between funds for a price approximating their external exchange value. This activity is reported as revenues in seller funds and expenditures or expenses in purchaser funds. Unpaid amounts are reported as receivables and payables.

## Nonreciprocal Interfund Activity

Interfund transfers are nonreciprocal interfund activity. This activity refers to flows of assets without equivalent flows of assets in return and without a requirement for repayment. In governmental funds, transfers are reported as other financing sources or uses. In proprietary funds, transfers are reported after nonoperating revenues and expenses. The majority of transfers are legally authorized by statute or bond covenant to move amounts from one fund to another. Amounts not transferred at fiscal year end are accrued as "due from/due to." Activity occurring within the same fund has been eliminated. Additional eliminations have been made and transfers in and out have been netted and presented in the government-wide statement of activities as "transfers-internal activities."

According to GASB 34, certain reclassifications and eliminations have been made between the fund financial statements and the government-wide financial statements. Resource flows between the primary government and its discretely presented component units have been reported as revenues and expenses, as if they were external transactions on the fund financial statements and the government-wide financial statements. Transfers between the governmental or business-type activities and the fiduciary funds have been reported as transfers on the fund financial statements and were reclassified to revenues and expenses, as if they were external transactions on the government-wide financial statements.

Due from/due to amounts between the primary government and the discretely presented component units are reported separately from due from/due to amounts between funds in the fund financial statements and the government-wide financial statements, according to GASB 34. Due from/due to amounts between governmental or business-type activities and fiduciary funds are reported as due from/due to amounts between funds in the fund financial statements and are reclassified to receivables from fiduciary funds/payables to fiduciary funds, as if they were external transactions on the government-wide financial statements.

Interfund reimbursements are repayments from funds responsible for payment of expenditures or expenses to the funds that actually made the payment. Reimbursements are not displayed in the financial statements.

For the state of Texas, routine transfers are those transfers from unrestricted revenue collected in the general revenue fund to finance various programs accounted for in other funds in accordance with the General Appropriation Act, which is the primary budget document for the state of Texas. Other transfers are legally authorized by statute to move resources from one fund to another. The noncurrent interfund receivables/payables include loans for energy efficiency programs of approximately $17.6 million. There is also a $382.6 million receivable for Texas A&M System from the University of Texas System from permanent university funds. The earnings will be used for bond payments. Significant transfers include a $1 billion transfer from lottery earnings to the foundation school fund for educational programs, an $843 million transfer from the permanent school fund to the available school fund and a $2.2 billion transfer to the highway fund and $1.5 billion transfer to the Teacher Retirement System trust account, both from the general revenue fund. The detail of interfund activity and transactions by fund type and category as of Aug. 31, 2007, is shown on the following pages.

## Interfund Receivables/Payables per the Fund Statements

(Amounts in Thousands)

| Fund Type | Current | | Noncurrent | | Total | |
|---|---|---|---|---|---|---|
| | Interfund Receivables | Interfund Payables | Interfund Receivables | Interfund Payables | Interfund Receivables | Interfund Payables |
| **INTERFUND RECEIVABLES/PAYABLES WITHIN THE PRIMARY GOVERNMENT** | | | | | | |
| Governmental Funds | | | | | | |
| General Fund | $ 199 | $ 60 | $ 17,646 | $ | $ 17,845 | $ 60 |
| State Highway Fund | | | | | | |
| Nonmajor Governmental Funds | 60 | 30 | | 1,888 | 60 | 1,918 |
| | 259 | 90 | 17,646 | 1,888 | 17,905 | 1,978 |
| Proprietary Funds | | | | | | |
| Colleges and Universities | 23,340 | 23,340 | 382,630 | 398,388 | 405,970 | 421,728 |
| Nonmajor Enterprise Funds | | 169 | | | | 169 |
| | 23,340 | 23,509 | 382,630 | 398,388 | 405,970 | 421,897 |
| Fiduciary Funds | | | | | | |
| Agency Funds | | | | | | |
| | 0 | 0 | 0 | 0 | 0 | 0 |
| Total Interfund Receivables/Payables Within the Primary Government | $ 23,599 | $ 23,599 | $400,276 | $400,276 | $423,875 | $423,875 |

## Due From/Due To per the Fund Statements

(Amounts in Thousands)

| Fund Type | Due From | | | Due To | | |
|---|---|---|---|---|---|---|
| | Other Funds | Primary Government | Component Unit | Other Funds | Primary Government | Component Unit |
| **DUE FROM/DUE TO WITHIN THE PRIMARY GOVERNMENT** | | | | | | |
| Governmental Funds | | | | | | |
| General Fund | $ 198,021 | $ | $ 431 | $ 777,894 | $ | $ 348 |
| State Highway Fund | 329,192 | | | 8,430 | | |
| Permanent School Fund | 10,253 | | | 310 | | |
| Nonmajor Governmental Funds | 70,922 | | | 286,391 | | |
| | 608,388 | 0 | 431 | 1,073,025 | 0 | 348 |
| Proprietary Funds | | | | | | |
| Colleges and Universities | 431,164 | | 9 | 10,040 | | |
| Texas Water Development Board Funds | | | | 2,297 | | |
| Texas Department of Transportation Turnpike Authority | 3,524 | | | | | |
| Nonmajor Enterprise Funds | 63,557 | | | 17,984 | | |
| Internal Service Fund | 1,750 | | | 73,252 | | |
| | 499,995 | 0 | 9 | 103,573 | 0 | 0 |
| Fiduciary Funds | | | | | | |
| Pension and Other Employee Benefit Trust Funds | 123,913 | | | 55,474 | | |
| Agency Funds | 255 | | | 479 | | |
| | 124,168 | 0 | 0 | 55,953 | 0 | 0 |
| Total Due From/Due To Within the Primary Government | $1,232,551 | $ 0 | $ 440 | $1,232,551 | $ 0 | $ 348 |
| **DUE FROM/DUE TO OUTSIDE THE PRIMARY GOVERNMENT** | | | | | | |
| Discretely Presented Component Units | $ | $ 348 | $ | $ | $ 440 | $ |
| Total Due From/Due To Outside the Primary Government | $ 0 | $ 348 | $ 0 | $ 0 | $ 440 | $ 0 |
| **TOTAL DUE FROM/DUE TO** | | | $1,233,339 | | | $1,233,339 |

## Internal Balances per the Government-wide Financial Statements

(Amounts in Thousands)

| | Governmental Activities | Business-Type Activities | Total |
|---|---|---|---|
| **NONCURRENT ASSETS** | | | |
| Internal Balances–Receivables | $ 15,758 | $ (15,758) | $ 0 |
| **CURRENT LIABILITIES** | | | |
| Internal Balances–Payables | $ 467,755 | $ (467,755) | $ 0 |

## Transfers In/Out per the Fund Statements

(Amounts in Thousands)

| Fund Type | Transfers In Other Funds | Transfers Out Other Funds |
|---|---|---|
| Governmental Funds | | |
| General Fund | $ 1,425,527 | $ 9,969,934 |
| State Highway Fund | 4,081,160 | 151,772 |
| Permanent School Fund | | 843,137 |
| Nonmajor Governmental Funds | 2,258,493 | 1,922,551 |
| | 7,765,180 | 12,887,394 |
| Proprietary Funds | | |
| Colleges and Universities | 4,607,617 | 216,209 |
| Texas Water Development Board Funds | 3,637 | 7,626 |
| Texas Department of Transportation Turnpike Authority | 114,885 | |
| Nonmajor Enterprise Funds | 10,968 | 1,129,161 |
| | 4,737,107 | 1,352,996 |
| Fiduciary Funds | | |
| Pension and Other Employee Benefit Trust Funds* | 1,823,277 | 84,114 |
| Private-Purpose Trust Funds | | 1,060 |
| | 1,823,277 | 85,174 |
| Total Transfers In/Out | $ 14,325,564 | $ 14,325,564 |

* State contributions to the Teacher Retirement System (TRS) pension and other postemployment benefits plans are included in Transfers In. For fiscal 2007, the total state contributions were $1,735,915 (in thousands) for the TRS plans.

## Transfers In/Out per the Government-wide Financial Statements

(Amounts in Thousands)

| Fund Category | Other Funds |
|---|---|
| Governmental Activities | $ (3,383,910) |
| Business-Type Activities | $ 3,383,910 |

# NOTE 13
# Fund Balances/Net Assets

A summary of the nature and purposes of governmental fund balances is shown in the table below by fund type at Aug. 31, 2007. The government-wide, proprietary and fiduciary restrictions are listed on the face of their statement of net assets.

The government-wide statement of net assets reports $55.2 billion of restricted net assets for the primary government, of which $45.5 billion is restricted by enabling legislation.

## Governmental Fund Balances – Reserved, Unreserved/Designated, Unreserved/Undesignated

(Amounts in Thousands)

| | |
|---|---|
| **MAJOR FUNDS** | |
| General Fund – Reserved: | |
| Encumbrances | $ 1,210,050 |
| Inventories | 161,140 |
| Imprest Accounts | 3,513 |
| Loans and Contracts | 144,355 |
| Interfund Receivables (Noncurrent) | 17,646 |
| Tax Receivables (Noncurrent) | 462,764 |
| Health and Human Services | 136,394 |
| Natural Resources and Recreation | 2,482 |
| | $ 2,138,344 |
| General Fund – Unreserved | |
| Undesignated: | $ 8,697,977 |
| State Highway Fund – Reserved: | |
| Encumbrances | $ 184,241 |
| Inventories | 92,241 |
| Imprest Accounts | 553 |
| Loans and Contracts | 233,807 |
| | $ 510,842 |
| State Highway Fund – Unreserved/Designated: | |
| Transportation | $ (498,644) |
| Permanent School Fund – Reserved: | |
| Encumbrances | $ 1,445 |
| Loans and Contracts | 1,672 |
| Public School Support | 26,770,768 |
| | $ 26,773,885 |
| **NONMAJOR FUNDS** | |
| Special Revenue Funds – Reserved: | |
| Encumbrances | $ 36,734 |
| Inventories | 464 |
| Imprest Accounts | 10 |
| Loans and Contracts | 859,408 |
| | $ 896,616 |
| Special Revenue Funds – Unreserved/Designated: | |
| General Government | $ 795,049 |
| Regulatory Services | 411,511 |
| Health and Human Services | 13,202 |
| Natural Resources and Recreation | 127,226 |
| Education | 334,364 |
| Transportation | 779,333 |
| Public Safety and Corrections | 9,141 |
| Employee Benefits | 90 |
| Teacher Retirement Benefits | 382 |
| Total Unreserved/Designated | $ 2,470,298 |
| Undesignated: | (124,338) |
| | $ 2,345,960 |
| Debt Service Funds – Reserved: | |
| Debt Service | $ 145,165 |
| Capital Projects Funds – Reserved: | |
| Encumbrances | $ 76,442 |
| Inventories | 85 |
| Capital Projects | 33,366 |
| | $ 109,893 |
| Capital Projects Funds – Unreserved: | |
| Designated: | |
| Public Safety and Corrections | $ 860 |
| Total Unreserved/Designated | 860 |
| Undesignated: | |
| General Government | 90 |
| Health and Human Services | 1,707 |
| Public Safety and Corrections | (15,552) |
| Natural Resources and Recreation | 1,417 |
| Total Unreserved/Undesignated | (12,338) |
| | $ (11,478) |
| Permanent Funds – Reserved: | |
| Education | $ 617,427 |
| | $ 617,427 |
| Permanent Funds – Unreserved: | |
| Designated: | |
| Permanent Health Fund | $ 616,539 |
| Total Unreserved/Designated | 616,539 |
| Undesignated: | |
| General Government | 15,189 |
| Education | 9 |
| Natural Resources and Recreation | 297 |
| Total Unreserved/Undesignated | 15,495 |
| | $ 632,034 |
| **ALL GOVERNMENTAL FUNDS** | |
| Reserved | $ 31,192,172 |
| Unreserved/Designated | 2,589,053 |
| Unreserved/Undesignated | 8,576,796 |
| Total Fund Balances – Governmental Funds | $ 42,358,021 |

# NOTE 14
## Adjustments to Fund Balances/ Net Assets

During fiscal 2007 certain accounting changes and adjustments were made which required the restatement of fund balances or net assets as shown and discussed below.

### Restatements to Fund Balances/Net Assets
(Amounts in Thousands)

| | September 1, 2006, As Previously Reported | Restatements | September 1, 2006, As Restated |
|---|---|---|---|
| **GOVERNMENTAL FUNDS AND GOVERNMENT-WIDE ACTIVITIES** | | | |
| Major Funds: | | | |
| General Fund | $ 7,320,890 | $ 11,732 | $ 7,332,622 |
| State Highway Fund | 255,662 | | 255,662 |
| Permanent School Fund | 23,912,384 | (1,327) | 23,911,057 |
| Total Major Funds | 31,488,936 | 10,405 | 31,499,341 |
| Nonmajor Funds: | | | |
| Special Revenue Funds | 1,970,604 | (23) | 1,970,581 |
| Debt Service Funds | 150,442 | | 150,442 |
| Capital Project Funds | 84,918 | (959) | 83,959 |
| Permanent Funds | 1,116,834 | | 1,116,834 |
| Total Nonmajor Funds | 3,322,798 | (982) | 3,321,816 |
| Total Governmental Funds | 34,811,734 | 9,423 | 34,821,157 |
| Governmental Activities: | | | |
| Capital Assets Net of Accumulated Depreciation | 60,318,012 | (29,545) | 60,288,467 |
| Long-Term Liabilities | (7,090,537) | (16,185) | (7,106,722) |
| Other Adjustments | 1,881,472 | 1,352 | 1,882,824 |
| Internal Service Fund | 241,478 | | 241,478 |
| Total Governmental Activities | 55,350,425 | (44,378) | 55,306,047 |
| Total Governmental Funds and Government-wide Activities | 90,162,159 | (34,955) | 90,127,204 |
| **PROPRIETARY FUNDS AND BUSINESS-TYPE ACTIVITIES** | | | |
| Major Funds: | | | |
| Colleges and Universities | 32,433,980 | (6,055) | 32,427,925 |
| Texas Water Development Board Funds | 1,823,529 | | 1,823,529 |
| Texas Department of Transportation Turnpike Authority | 761,719 | | 761,719 |
| Nonmajor Enterprise Funds | 2,720,044 | 5 | 2,720,049 |
| Total Enterprise Funds and Business-Type Activities | 37,739,272 | (6,050) | 37,733,222 |
| Fiduciary Funds | | | |
| Pension and Other Employee Benefit Trust Funds | 123,504,102 | (311,875) | 123,192,227 |
| External Investment Trust Funds | 12,608,093 | | 12,608,093 |
| Private-Purpose Trust Funds | 2,897,606 | | 2,897,606 |
| Total Fiduciary Funds | 139,009,801 | (311,875) | 138,697,926 |
| Total Primary Government | 266,911,232 | (352,880) | 266,558,352 |
| Discretely Presented Component Units | 401,601 | | 401,601 |
| Total Reporting Entity | $267,312,833 | $(352,880) | $266,959,953 |

## Restatements by Activity

(Amounts in Thousands)

| Restatements | Governmental Activities | Business-Type Activities | Fiduciary Activities | Total Restatements |
|---|---|---|---|---|
| A. | $ (5,410) | $ 32,149 | | $ 26,739 |
| B. | (29,545) | (38,199) | | (67,744) |
| C. | | | (311,875) | (311,875) |
| Total Restatements | $ (34,955) | $ (6,050) | $ (311,875) | $ (352,880) |

A. These are miscellaneous restatements and other changes necessary to correct accounting errors in the prior period that resulted in the over or understatement of revenues and/or expenditures.

B. This restatement is for adjusting capital assets and accumulated depreciation.

C. This restatement recognizes a change in Tex$aver 457 trust fund reporting was appropriate. Previously, investment assets of participants and related activities had been reported as assets of the Employees Retirement System of Texas in the agencies financial statements. Since the System does not have significant administrative involvement, it is no longer reporting assets and activities of the individuals pursuant to GASB Statement 32, *Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans*. The agency is a government sponsor of the Internal Revenue Code Section 457 deferred compensation plan for state employees. Such plans are not reported in the sponsoring employer's financial statements because sponsors typically remit employee contributions directly to a third-party administrator who holds the asset in trust. Therefore, the beginning balance of Net Assets Held in Trust for Pension Benefits as of Sept. 1, 2006, was totally restated by $311.9 million and consequently there is no activity reported relating to this Texa$aver 457 trust fund during the fiscal year ended Aug. 31, 2007.

# Note 15
# Contingent Liabilities

The state has been named as a defendant in routine legal proceedings, which normally occur in governmental operations. The recurring pattern of such litigation is not likely to have a materially adverse effect on the state's revenues or expenditures. Potential claims have been classified into the following categories to facilitate disclosure.

### Protested Tax Payments

As of Aug. 31, 2007, the state held protested tax payments of $118.5 million, the majority of which were held by the Comptroller. The taxes included state sales and use tax, franchise tax, insurance premium and maintenance taxes, surtaxes and various other fees under protest. In addition, plaintiffs have filed lawsuits seeking refunds for franchise, sales, insurance, motor vehicle sales and use and oil and gas production taxes totaling $698 million. Although the outcome of these cases cannot presently be determined, adverse rulings in some of them could result in significant additional refunds.

### Unpaid Claims and Lawsuits

A variety of cases with claims totaling $266.4 million have been filed which may affect the state. While the outcome of these cases cannot be determined, adverse rulings could result in additional liabilities. Included are a number of lawsuits and claims that may be significant to individual state agencies. The Texas Department of Transportation faces a potential liability of $91.9 million from litigation and contractual claims. The Department of Family and Protective Services is potentially impacted from civil rights, discrimination and tort claims of $139.9 million.

### Outstanding Loan Commitments

The state makes loan commitments to political subdivisions for financing purposes to be provided from remaining current bond proceeds, future bond proceeds and federal drawdowns.

The Texas Water Development Board has loan commitments totaling $1.2 billion as of Aug. 31, 2007.

### Federal Assistance

The state receives federal financial assistance which is subject to review or audit by federal grantor agencies. Entitlement to this assistance is generally conditional upon compliance with the terms and conditions of grant agreements and applicable federal regulations, including the expenditure of assistance for allowable purposes. Any disallowance as a result of the audits may become a liability of the state. The state estimates that the ultimate disallowance pertaining to these grants, if any, will be immaterial to its overall financial condition.

### Arbitrage

Rebatable arbitrage is defined by Internal Revenue Code Section 148 as earnings on investments purchased with the gross proceeds of a bond issue in excess of the amount that would have been earned if the investment were invested at a yield equal to the yield on the bond issue. The rebatable arbitrage must be paid to the federal government. State agencies and universities responsible for investments from bond proceeds carefully monitor their investments to restrict earnings to a yield less than the bond issue and, therefore, limit any state arbitrage liability. The state estimates that rebatable arbitrage liability, if any, will be immaterial to its overall financial condition.

### Guaranteed Debt

At Aug. 31, 2007, $44.9 billion in debt had been guaranteed by the permanent school fund for 2,518 outstanding bond issues in 767 school districts in the state. Under state statute, payments by the permanent school fund on such guarantees are recoverable from the state of Texas. The $44.9 billion represents principal amount and does not reflect any subsequent accretions in value for compound interest bonds (zero coupon securities). The amount also excludes bonds that have been refunded and released from the Bond Guarantee Program.

### Partnerships

The University of Texas System (UT) has invested in certain limited partnerships. The partnership agreements commit UT to possible future capital contributions amounting to $2 billion as of Aug. 31, 2007. The Teacher Retirement System has $9.5 billion in remaining commitments for private equity domestic and international partnerships.

## Note 16
## Subsequent Events

### Primary Government

State agencies and universities have issued $2.3 billion in new bonds and commercial paper and $218 million in refunding bonds since Aug. 31, 2007. This routine activity finances state facilities, housing assistance programs, educational loans and refunds outstanding debt.

Texas Public Finance Authority (TPFA) issued $22.1 million of General Obligation Commercial Paper Notes, Series 2002A on Sept. 10, 2007. TPFA issued $10 million of Revenue Commercial Paper Notes, Series 2003 on Sept. 13, 2007. Building Revenue Refunding Bonds for Texas Department of Criminal Justice (TDCJ) Projects, Series 2007 in the amount of $45.4 million were sold on Sept. 25, 2007, to refund and legally defease the Series 1998A (TDCJ) bonds in order to lower the overall debt service requirements. The agency issued $15 million of General Obligation Commercial Paper Notes, Series 2002B on Oct. 22, 2007, and $4.7 million of General Obligation Commercial Paper Notes, Series 2002A, on Nov. 14, 2007. The purpose of the general obligation debt was to support various projects for the Colonias Roadway Program, the Texas Facilities Commission, the Texas Department of State Health Services and the Texas Youth Commission. Revenue financing using commercial paper was issued for projects for the Texas Department of Aging and Disability Services, Angelo State University and Texas Tech University.

The Texas Department of Housing and Community Affairs issued $172.1 million in single-family revenue bonds for the primary purpose of providing funds for the purchase of mortgage-backed, pass-through certificates.

In September 2007, the Texas Workforce Commission and its advisors determined that sufficient balances existed in the obligation assessment fund to enable redemption of some of the variable rate bonds (Series D). On Sept. 7, 2007,

the Texas Workforce Commission transferred to the TPFA $65.3 million and on Oct. 4, 2007, the Commission transferred an additional $3.7 million. These funds will reduce the amount of debt of the Series D principal outstanding to $79 million. This transaction will reduce the amount of debt remaining, if any, in the last year of the bond debt service and also reduce interest paid by lowering the principal outstanding by selectively redeeming variable rate bonds with the highest interest rates.

The Texas Water Development Board (TWDB) issued $118.5 million in general obligation debt in September 2007 for the purpose of refunding $121.5 million in Water Development Bonds, Series 1997-A, 1997-B and 1997-D. These represent self-supporting general obligation bonds related to business-type activities and to provide loans to political subdivisions for the construction of water treatment systems. On Oct. 20, 2007, TWDB issued $25 million of Series 2007-D general obligation bonds for the purpose of providing loans for self-supporting business-type activities. On Jan. 8, 2008, the agency issued $203 million of Series 2008-A self-supporting revenue bonds as part of the $350 million in authorized bonds for the "New Money for Trinity River Authority Clean Water State Revolving Fund."

On Nov. 14, 2007, the General Land Office board issued its $54.2 million Series 2007C Taxable Refunding Bonds to refund the State of Texas Veterans' Housing Assistance Program, Fund II Series 1997A and 1997B Bonds.

On Oct. 31, 2007, the Texas Department of Transportation issued $1.2 billion in State Highway Fund First Tier Revenue Bonds Series 2007 for the purpose of (i) financing state highway improvement projects that are eligible for funding with revenues dedicated under Article VIII, Section 7-a of the Texas Constitution; and (ii) to pay the costs of issuing bonds.

On Nov. 6, 2007, the University of Texas System (UT) Board of Regents issued $150 million of Permanent University Fund Flexible Rate Notes, Series A. On Dec. 20, 2007, $345.5 million of Revenue Financing System Bonds were issued for construction and refund of RFS Commercial Paper Notes, Series A.

Effective Dec. 17, 2007, the UT Health Science Center at San Antonio (UTHSCSA) assumed responsibility for the operation of the Cancer Therapy and Research Center (CTRC), a 501(c)(3) nonprofit corporation. In the merger of the two entities, UTHSCSA acquired possession of the real and personal property of CTRC, paying off the long-term real estate indebtedness of CTRC at a cost of $13.8 million. Net property and equipment acquired in the combination was valued at $55.3 million as of Sept. 30, 2007.

Effective Sept. 1, 2007, the governance, control, management and property of Angelo State University was transferred from the Board of Regents of the Texas State University System to the Board of Regents of the Texas Tech University System, which will increase net assets by $215 million for the Texas Tech University System. Existing debt issued by the Texas State University System and attributable to Angelo State University as of Sept. 1, 2007, remains a liability of the Texas State University System. The transfer is governed by House Bill 3564 and Senate Bill 1749.

The 80th Legislature appropriated more than $217 million to the Texas Department of Criminal Justice (TDCJ) for the expansion of treatment and diversion programs in fiscal years 2008-09. These initiatives included funding for additional substance abuse treatment for probationers and incarcerated offenders, additional funding for mental health services for offenders, additional probation and parole intermediate sanction facility beds, probation residential treatment beds and parole halfway house beds. Also, two Texas Youth Commission facilities in Marlin and San Saba were transferred to TDCJ by state legislative action, thereby increasing TDCJs correctional capacity. By the end of the 2008-09 biennium, these targeted appropriations will add approximately 5,700 beds to the adult Texas criminal justice system.

### Component Unit

On Oct. 30, 2007, the Texas State Affordable Housing Corporation (the Corporation) issued $23.5 million in single-family mortgage revenue bonds (Series 2007D). On Sept. 24, 2007, the Corporation closed a transaction involving the acquisition and rehabilitation of thirteen existing multi-family rental properties located in nine Texas cities. The transaction was financed with the issuance of $34.9 million in private activity bonds and a $500,000 loan from

the Corporation. One hundred percent of the units in the apartment complex will be set aside for residents at or below 50 percent of the area median income. On Sept. 19, 2007, the Corporation issued $23.5 million Series 2007B revenue bonds, and a refunding transaction was completed for $100 million on Oct. 1, 2007. The funds are to be used primarily to provide single family home loans to professional educators, fire fighters, law enforcement or security officers and nursing faculty. Funds are available for the single family Homes for Texas Heroes Home Loan Program and to finance affordable multifamily rental housing.

## Note 17
## Risk Management

It is the policy of the state and its agencies to periodically assess the proper combination of commercial insurance and self-insurance to cover the risk of losses to which it may be exposed. The state is not involved in any risk pools with other governmental entities.

Liabilities are reported when it is probable that a loss has occurred and the amount of that loss can be reasonably estimated. Liabilities include an amount for claims that have been incurred but not reported.

For workers' compensation and unemployment compensation claims, the state is generally self-insured and funds such liabilities on a pay-as-you-go basis. The state assumes substantially all risks associated with tort claims and liability claims against the state or its agencies due to conditions of property, vehicles, aircraft or watercraft.

The Texas Employees Group Benefits Program (GBP) provides health, life, accidental death and dismemberment (AD&D), disability and dental insurance coverage to state and higher education employees, retirees and their dependents. Coverage is provided through a combination of insurance contracts, a self-funded health plan, a self-funded dental indemnity plan, health maintenance organization (HMO) contracts and dental health maintenance organization (DHMO) contracts. Effective Sept. 1, 1992, the Employees Retirement System of Texas (ERS) implemented a self-funded managed care health plan — HealthSelect of Texas. The managed care arrangement includes provider fee negotiations and utilization management. HealthSelect is administered by Blue Cross and Blue Shield of Texas, Inc.

The administrative contract involves no transfer of risk to the administrator. The state's group insurance fund retains all risk under HealthSelect. The GBP also includes HMOs to provide health care services in lieu of coverage under HealthSelect. There is a full transfer of risk to the HMOs. The state retains no risk beyond the payment of premiums. The life, AD&D and disability insurance coverages are administered by Group Life and Health (the carrier), a division of Fort Dearborn Life Insurance Company. The carrier, not the fund, is liable in the event claims exceed the claims portion of premium. The AD&D insurance is fully insured. ERS approved two dental plans for fiscal 2007, a dental health maintenance organization (DHMO) administered by Aetna Dental, Inc. and a dental indemnity plan administered by the Government Employees Hospital Association (GEHA). The DHMO is fully insured with all risk transferred to Aetna Dental, Inc. Beginning Sept. 1, 1997, the dental indemnity plan became self-funded by ERS with all risk retained by the Group Insurance Fund.

The 77th Legislature enacted the Texas School Employees Uniform Group Health Coverage Act, establishing a new statewide health coverage program for public school employees and their dependents. The Teacher Retirement System administers this program. Enrollment commenced in September 2002. The new plan took effect Sept. 1, 2002, and includes employees of most small to mid-size districts, charter schools, education service centers and certain other employers.

A number of state universities have self-insurance plans providing various coverages in the areas of workers' compensation, unemployment compensation, employee health and medical malpractice on a funded or pay-as-you-go basis. Liabilities are reported when it is probable that a loss has occurred and the amount of that loss can be reasonably estimated. Estimates of liabilities for incurred (both reported and unreported), but unpaid claims are actuarially determined based on estimates of the ultimate cost of settling claims, using past experience adjusted for current trends and any other factors that would modify past experience. There

have been no significant reductions in insurance coverage in the past year and losses did not exceed funding arrangements during the past three years.

The following table presents the changes in claims liability reported in various balance sheet/statement of net assets liability accounts for the general fund government-wide governmental activities, enterprise funds, internal service fund and colleges and universities during fiscal years ending Aug. 31, 2006, and Aug. 31, 2007. Claims and judgment amounts presented in Note 5 (Long-Term Liabilities) are also included in the table.

### Changes in Claims Liability Balances

(Amounts in Thousands)

| | Beginning Balance | Increases | Decreases | Ending* Balance |
|---|---|---|---|---|
| 2007 | $810,226 | $1,716,867 | $1,809,210 | $717,883 |
| 2006 | $791,206 | $2,400,267 | $2,381,247 | $810,226 |

* The ending balance includes both short-term and long-term claims. Long-term claims are reported as claims and judgments (current and noncurrent liabilities) which are included in Note 5 (long-term liabilities). Short-term claims payable, the majority of which relate to claims filed for the state's Group Benefits Program, are included as accounts payable in the statement of net assets and not included in Note 5.

## Note 18
## Contested Taxes

Taxpayers may petition for a formal hearing before an independent administrative law judge if they wish to challenge a tax liability assessed by the state. If the request for a determination hearing is received within a specified time, the taxpayer does not have to pay the tax until a final decision is reached. Collectability of these assessments is dependent upon the decisions of administrative law judges. These assessments are not recognized as tax revenue until the administrative hearing is final. Therefore, these amounts are not included in the receivables reported in the financial statements. As of Aug. 31, 2007, the redetermination hearings process had an estimated amount of $530 million.

## Note 19
## Component Units and Related Organizations

Component units are legally separate organizations for which the elected officials of the primary government are financially accountable. Component units can also be other organizations for which the nature and significance of their relationship with a primary government is such that exclusion would cause the reporting entities financial statements to be misleading or incomplete. In addition, component units can be organizations that raise and hold economic resources for the direct benefit of a government unit. Because of the closeness of their relationships with the primary government, some component units are blended as though they are part of the primary government. However, most component units are discretely presented. None of the component units for the state of Texas meet the criteria for major component unit presentation and those presented are for information purposes of interested parties. The component units are reported for the year ended Aug. 31, 2007, unless indicated otherwise. There are no material blended component units of the state.

### Discretely Presented Component Units

The state is financially accountable for the following legally separate entities (component units); however, the units do not provide services entirely or almost entirely to the state. The component unit's financial data is discretely presented in the component units column of the state's financial statements.

**State Bar of Texas** is a public corporation and an administrative agency of the judicial branch of government. The purpose of the State Bar is to ensure that public responsibilities of the legal profession are effectively discharged. The state of Texas has the ability to impose its will upon the State Bar through its budget approval powers. The State Bar is reported for the year ended May 31, 2007. Separate financial statements may be obtained by contacting the State Bar of Texas at P.O. Box 12487, Austin, Texas 78711.

**Texas Agricultural Finance Authority** (Authority) is a legally separate entity within the Texas Department of Agriculture (TDA) and is financially accountable to the state.

The governor, with the advice and consent of the Senate, appoints seven of the nine members of the board of directors. The commissioner of TDA administers the Authority with the assistance of the board. The Authority was created to provide financial assistance for the expansion, development and diversification of agricultural businesses. The Authority primarily benefits the citizens of Texas. Separate financial statements may be obtained by contacting the TDA at P.O. Box 12847, Austin, Texas 78711-2847.

**Texas On-Site Wastewater Treatment Research Council** (Council) awards competitive grants and contracts to support applied research, demonstration projects and information transfer regarding on-site wastewater treatment. The Council is not an advisory council and does not regulate the on-site wastewater industry in the state of Texas. The Council is a component unit due to its fiscal dependency on the Texas Commission on Environmental Quality (TCEQ). The Council's fiscal operations (revenues, budget, expenditures and administration) are maintained by TCEQ. In order to emphasize that the Council is a legally separate entity, its financial information is presented in a separate column in the TCEQs combined financial statements.

**Texas Appraiser Licensing and Certification Board** (TALCB) was statutorily created as an independent subdivision of the Texas Real Estate Commission (TREC) and is a legally separate entity from the primary government. The governor appoints the members of the board. TREC provides administrative support to TALCB, but has no authority to approve or modify its budget or to set its fees. Although TALCB is not fiscally dependent on TREC, to exclude it would result in presentation of incomplete financial statements. TALCB serves the real estate community in Texas. Financial statements can be obtained by contacting TREC at P.O. Box 12188, Austin, Texas 78711-2188.

**Texas Prepaid Higher Education Tuition Scholarship Foundation, Inc.** (Foundation) is a legally separate entity created to provide prepaid tuition scholarships to students meeting economic or academic requirements. The Foundation is a direct-support organization of the prepaid tuition program and is authorized by Section 54-633 of the Texas Education Code. The Foundation is governed by a board composed of the Comptroller of Public Accounts, a member appointed by the governor with the advice and consent of the Senate and three members appointed jointly by the Comptroller and the member who is appointed by the governor. Separate financial statements may be obtained by contacting the Texas Comptroller of Public Accounts, Texas Guaranteed Tuition Plan at 111 E. 17th Street, Austin, Texas 78774.

**Texas Guaranteed Student Loan Corporation** (Corporation) is a public nonprofit corporation that guarantees loans made to eligible students under the federal guaranteed student loan program. The state of Texas is financially accountable for the Corporation through board appointment and imposition of will. All members of the Corporation's board are appointed by the governor with the advice and consent of the Senate. The Corporation's liabilities are not debts of the state. The Corporation received a one-time appropriation of $1.5 million to fund initial startup operations. The Corporation is reported for the year ended Sept. 30, 2007. Separate financial statements may be obtained by contacting the Texas Guaranteed Student Loan Corporation at P.O. Box 201725, Austin, Texas 78720-1725.

**Texas Boll Weevil Eradication Foundation, Inc.** (Foundation) was created by Senate Bill 30, 73rd Legislature, 1993 (now codified at Texas Agriculture Code, Chapter 74, Subchapter D). The Foundation establishes and implements a boll weevil eradication program for Texas. It is a legally separate entity, fiscally dependent on the TDA and governed by sixteen board members. TDA's commissioner appoints eight of the board members. TDA approves the Foundation's budget, assessment fees and debt. The Foundation is reported for the year ended Dec. 31, 2006. Separate financial statements may be obtained by contacting the TDA at P.O. Box 12847, Austin, Texas 78711-2847.

**Texas Water Resources Finance Authority** (Authority) was created by the Legislature as a governmental entity and body politic and corporate for the purpose of increasing the availability of financing for water-related projects. A board of directors, composed of the six members of the Texas Water Development Board (TWDB), governs the Authority. TWDB, through a sales and servicing agreement, wholly manages the Authority's operations. Financial statements may be obtained by contacting the TWDB at P.O. Box 13231, Austin, Texas 78711-3231.

**Texas Small Business Industrial Development Corporation** (TSBIDC) was chartered in 1983 under the Development Corporation Act of 1979 to promote economic development in the state of Texas. The Office of the Governor is the oversight agency for the TSBIDC and is its reporting entity. The board of directors is appointed by the governor. TSBIDC's services primarily benefit the Texas citizenry. Separate financial statements may be obtained by contacting the Office of the Governor at P.O. Box 12428, Austin, Texas 78711.

**Texas Economic Development Corporation** (TED Corp), a nonprofit corporation, was created in 1991 under the provisions of the Texas NonProfit Corporation Act to assist, promote, develop and advance economic development in the state of Texas. The Office of the Governor is the oversight agency for the TED Corp and is its reporting entity. The board of directors is appointed by the governor. The entity's services primarily benefit the Texas citizenry. Separate financial statements may be obtained by contacting the Office of the Governor at P.O. Box 12428, Austin, Texas 78711.

**Texas Disaster Relief Fund** (TDRF), a nonprofit corporation, was established to help the Office of the Governor provide disaster relief. The chief of staff, director of homeland security and the chief financial officer of the Office of the Governor serve as initial directors and will change only when these positions change. The services provided by TDRF assist the Office of the Governor in responding to the needs of the citizens before, during and after a disaster in Texas. TDRF's financial statements for the fiscal year ended Dec. 31, 2006, may be obtained by contacting the Office of the Governor at P.O. Box 12428, Austin, Texas 78711.

**Surplus Lines Stamping Office of Texas** (Stamping Office) is a nonprofit corporation created by the Legislature to assist the Texas Department of Insurance (TDI) in the regulation of surplus lines insurance. TDI's commissioner appoints the board. The Stamping Office performs its functions under a plan of operation approved by order of TDI. The Stamping Office assesses each surplus lines insurance agent a stamping fee for the administrative funding of the Stamping Office. The state of Texas has the ability to impose its will upon the Stamping Office through the approval of the assessment rate that funds its operations. The Stamping Office is reported for the year ended Dec, 31, 2006. Separate financial statements may be obtained at P.O. Box 160170, Austin, Texas 78716-0170.

**Texas Health Reinsurance System** reinsures risks covered under the health benefit plans of small employers' insurance carriers. TDI's commissioner appoints, supervises and controls the nine-member board. The state of Texas has the ability to impose its will through TDI commissioner approval of base reinsurance premium rates and the assessment rates against reinsured health benefit plan issuers. Financial statements may be obtained at 100 Great Meadow Rd., Suite 704, Wethersfield, Connecticut 06109.

**Texas Health Insurance Risk Pool** provides access to quality health care at a minimum cost to the public for those unable to obtain traditional health care coverage. The TDI approves all rates and rate schedules before they are used. The board of directors, composed of nine members, is appointed by TDI's commissioner. Financial statements may be obtained at 1701 Director's Blvd., Suite 120, Austin, Texas 78744.

**Texas State Affordable Housing Corporation** (TSAHC) was incorporated under the Texas NonProfit Corporation Act and is legally separate from the state. Its purpose is to serve the housing needs of low-income Texans who are not afforded housing finance options through conventional lending channels, professional educators, firefighters and police officers who are first-time home buyers. TSAHC operates under the name Texas Star Mortgage to provide single and multifamily loans to low-income Texans. Although a separate entity from the state, there is a statutory link between the state and TSAHC as it issues bonds. Because of this link, TSAHC is included in the state's CAFR as a discretely presented component unit. Separate financial statements may be obtained by contacting TSAHC at P.O. Box 12637, Austin, Texas 78711-2637.

## Related Organizations

Related organizations are legally separate, fiscally independent entities for which the state appoints a voting majority of the board, however, the state is not financially accountable for the entity.

**Life, Accident, Health and Hospital Service Insurance Guaranty Association** (Association) was created for the protection of persons against failure in the performance of contractual obligations under life, accident and health insurance policies and annuity contracts, because of the impairment or insolvency of the member insurer that issued the policies or contracts. TDI's commissioner appoints a board of directors of the Association consisting of nine members.

**Texas Title Insurance Guaranty Association** was created for the purpose of providing funds for the protection of holders of "covered claims," as defined in Article 9.48 of the Texas Insurance Code. This applies to all title insurance written by title insurance companies authorized to do business in Texas. The nine-member board of directors is appointed by TDI's commissioner.

**Texas Mutual Insurance Company** (Texas Mutual) was created by House Bill 3458. It was previously known as the Texas Workers' Compensation Insurance Fund and reported as a discretely presented component unit. Texas Mutual operates as a domestic mutual insurance company providing workers' compensation insurance in the state of Texas and also serves as the insurer of last resort. It is legally separate and fiscally independent of the state, but the state appoints a voting majority of the Texas Mutual's board.

**Texas Institute for Genomic Medicine** (TIGM) is a nonprofit institute founded in 2005 under a $50 million award from the Texas Enterprise Fund to pioneer the development of life changing medical breakthroughs, accelerate the pace of medical discoveries and foster the development of the biotechnology industry in Texas. The voting majority of the TIGM Board is appointed by the A&M System Board of Regents upon recommendations from member CEOs.

**Midwestern State University Charitable Trust** is a nonprofit organization with the sole purpose of educational and other activities of Midwestern State University. It is governed by a five-member board of trustees. This board appoints individuals to fill vacancies on the Board as they occur.

**River Authorities** are political subdivisions that are created by Texas statute. The Texas Constitution, Article XVI, Section 59, authorizes the Legislature to create districts that conserve and develop natural resources of the state. The conservation and development of the state's natural resources includes the control, storing, preservation and distribution of its storm and flood waters, the waters of its rivers and streams, for irrigation, power and all other useful purposes, the reclamation and irrigation of its arid, semiarid and other lands needing irrigation, the reclamation of drainage of its overflowed lands and other lands needing drainage, the conservation and development of its forests, water and hydro-electric power, the navigation of its inland and coastal waters and the preservation and conservation of all such natural resources of the state. The state of Texas has voting majority for the following 14 river/water authorities:

- Angelina-Neches River Authority
- Brazos River Authority
- Central Colorado River Authority
- Guadalupe Blanco River Authority
- Lavaca Navidad River Authority
- Lower Colorado River Authority
- Lower Neches Valley River Authority
- Nueces River Authority
- Red River Authority
- Sabine River Authority
- Trinity River Authority
- Upper Colorado River Authority
- Upper Guadalupe River Authority
- Upper Neches Municipal Water Authority

## NOTE 20
## Deficit Fund Balances/Net Assets

### A. Primary Government

*Proprietary Funds*

**The Texas Prepaid Higher Education Tuition Board**, a nonmajor enterprise fund, reported a deficit of $164.6 million. This deficit was caused by tuition increases at Texas public senior colleges for the academic years 2002-05. A prolonged stock market downturn in 2000-02 also contributed to this deficit.

### B. Discretely Presented Component Units

**The Texas Boll Weevil Eradication Foundation, Inc.**, a component unit of the Texas Department of Agriculture, reported a deficit unrestricted net assets of $33.7 million.

This is a result of incurring debt during the early years of the eradication program which resulted in a decrease in unrestricted net assets on the statement of activities and an unrestricted deficit on the statement of net assets. Although this "loss" was incurred during the initial operations of the program, management expects an increase in net assets in later years to offset this loss.

## Note 21
## Tobacco Settlement

The state of Texas settled a lawsuit against certain tobacco manufacturers in 1998. The settlement included monetary and injunctive relief. The tobacco manufacturers agreed to remit annual payments to the state. Estimates made at the time of the agreement projected that these payments could total $15.1 billion over the first 25 years of the agreement. The actual amounts of the annual payments are subject to adjustments for domestic tobacco sales, inflation and any other court-ordered factors; however, the tobacco companies have no obligation to make settlement payments until cigarettes are shipped (sales). Since annual payments are based on cigarette sales from the preceding calendar year, a revenue accrual of $331.9 million has been calculated on estimated sales from Jan. 1 to the end of the fiscal year. Tobacco settlement revenues were $550.9 million in fiscal 2006 and $503 million in fiscal 2007. Cumulative actual tobacco settlement revenues as of fiscal 2007 were $5.2 billion.

## Note 22
## Donor-Restricted Endowments

The state of Texas has donor-restricted endowments with net appreciation of $26.7 billion on investments that are available for authorization for expenditure by the governing board. Details for the amounts of the net appreciation on investments and how they are reported in net assets can be found in the donor-restricted endowments schedule below. True endowments require the principal to be maintained inviolate and in perpetuity. Term endowments allow the principal to be expended after the passage of a stated period of time and all conditions of the endowment have been met. Expendable funds are those funds that may be expended for either a stated purpose or for a general purpose as per the endowment gift terms. Nonexpendable funds are those that are required to be retained in perpetuity. The policies of each individual state agency govern the authorizing and spending of net appreciation on endowment investments.

Each endowment fund evaluated the allocation of their restricted net assets as either expendable or nonexpendable. The permanent school fund (PSF) and permanent university fund (PUF) account for the majority of the donor-restricted endowment funds reported by the state. The PSF and PUF each consider historical oil and gas contributions from endowment lands as nonexpendable net assets. The PUF also considers the reported value of the land as nonexpendable net assets. The PSF does not include the value of its land in calculating nonexpendable net assets as the land is considered investment property and not part of the original corpus of the endowment. The remaining restricted net assets of each endowment are classified as expendable.

The Uniform Management of Institutional Funds Act, as adopted by the Legislature, gives general guidelines on how endowments should be maintained for higher education institutions. Each institution sets the amounts and/or percentages that are authorized for expenditure in its spending plan; however, the PSF and PUF are governed by provisions of the Texas Constitution. Distributions made by the PSF and PUF endowments to the available school fund (ASF) and available university fund (AUF), respectively, are made using a total return methodology. The ASF distribution should not exceed the lesser of 6 percent or the total return on all investment assets over the current year and proceeding nine years. The AUF distribution should not exceed 7 percent of the average net fair value of investment assets.

**Donor-Restricted Endowments**
(Amounts in Thousands)

| Donor-Restricted Endowments | Amount of Net Appreciation | Reported in Net Assets |
|---|---|---|
| True Endowments | $26,721,759 | Expendable |
| Term Endowments | 1 | Expendable |
| | $26,721,760 | |

## Note 23
## Extraordinary and Special Items

The state did not report extraordinary items in the current fiscal year. Extraordinary items, as defined in GASB Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*, are transactions or other events that are both unusual in nature and infrequent in occurrence.

The state reported a special item equal to $318.8 million in the current fiscal year. Special items are significant items, subject to management control, that meet one, but not both of the criteria used for identifying extraordinary items. At Oct. 1, 2006, the unemployment compensation trust fund exceeded the statutorily mandated ceiling of 2 percent of taxable wages. This required the refunding of surplus tax credits to eligible employers based on tax returns filed during the 2007 calendar year. Tax refunds of $318.8 million applied to 304,508 employers who had paid taxes into the unemployment compensation trust fund.

## Note 24
## Taxes Receivable

Taxes receivable represent amounts due to the state at Aug. 31, 2007, for revenues earned in the current fiscal year that will be collected in the future. Amounts expected to be collected in the next fiscal year are classified as "current" and amounts expected to be collected beyond the next fiscal year are classified as "noncurrent." The receivables have been recorded net of allowances for uncollectible accounts. Revenue is recorded on the governmental fund financial statements using the modified accrual basis of accounting for amounts due to the state of Texas at Aug. 31, 2007, that are considered "available" (e.g. received by the state within approximately 60 days after that date). Revenue earned but not "available" at Aug. 31, 2007, is recorded as deferred revenue. Prepaid taxes are also recorded as deferred revenue.

On the government-wide financial statements, a corresponding amount is recorded as revenue using the accrual basis of accounting, which includes revenue earned at fiscal year end regardless of its availability. Deferred revenue includes only the prepaid taxes that have not been earned by fiscal year end. Taxes receivable are the same for both modified and full accrual bases.

Taxes receivable, as reported in the general fund on the balance sheet – governmental funds, are detailed by tax type as follows.

### Taxes Receivable by Tax Type
August 31, 2007 (Amounts in Thousands)

| Tax Type | Net Taxes Receivable |
|---|---|
| Sales and Use Tax | $ 1,402,570 |
| Motor Vehicle and Manufactured Housing | 88,045 |
| Motor Fuels | 236,531 |
| Franchise | 487,591 |
| Oil and Natural Gas Production | 407,746 |
| Insurance Occupation | 121,349 |
| Cigarette and Tobacco | 389 |
| Other | 212,905 |
| Total Net Taxes Receivable | $ 2,957,126 |
| **Liquidity Characteristics:** | |
| Current Taxes Receivable | $ 2,494,362 |
| Noncurrent Taxes Receivable | 462,764 |
| Total Net Taxes Receivable | $ 2,957,126 |

## COBRA Benefits

(Amounts in Thousands)

| Fiscal 2007 Summary Benefits Provided Through: | Number of Participants | Premium Revenue | 2 Percent Administrative Fee Revenue | Claims Paid | Cost to State |
|---|---|---|---|---|---|
| Employees Retirement System | 2 | $ 7,536 | $ 150 | $18,232 | $10,546 |
| University of Texas System | 2 | 4,307 | 84 | 9,652 | 5,261 |
| Texas A&M University System* | 1 | 851 | 17 | 1,325 | 457 |
| Teacher Retirement System** | N/A | N/A | N/A | N/A | N/A |
| Total | 5 | $12,694 | $ 251 | $29,209 | $16,264 |

* The participants and costs for Texas A&M University System are for the self-insured program. The system also has 128 participants in HMO groups. The cost for the HMO is unknown. The 2 percent administrative fee is not retained by the system but is passed to the carrier.

** The Teacher Retirement System Active Care Plan is administered by the system for public school district employees. The state is not the employer nor does it contribute to the plan.

# NOTE 25
# Termination Benefits

Health care continuation under the Consolidated Omnibus Budget Reconciliation Act (COBRA) is provided for both voluntary and involuntary terminations. The COBRA members are eligible to remain in the Group Benefits Program for 18 months or 29 months if disabled. Covered dependents are eligible to remain in the program for 36 months. COBRA benefits for the state in fiscal 2007 are shown above.

# NOTE 26
# Segment Information

## Primary Government

Segments are separately identifiable activities reported as or within enterprise funds for which revenue bonds or other revenue-backed debt instruments are outstanding and for which related expenses, gains, losses, assets and liabilities can be identified. To qualify as a segment, an activity must also be subject to an external requirement to separately account for this revenue stream. The activities reported in the following financial information meet these requirements.

The State of Texas David A. Gloier State Veterans Home Program was created to provide long-term skilled nursing care for veterans, spouses of veterans and gold star parents of veterans of the state of Texas. The construction of the first four homes was funded by the issuance of revenue bonds, which require these homes' revenues, expenses, gains and losses, assets and liabilities to be separately accounted for and independently audited. The following tables present the financial statements of the homes related to the revenue bonds.

## Condensed Statement of Net Assets

(Amounts in Thousands)

| | Veterans Homes Revenue Bonds |
|---|---|
| **ASSETS** | |
| Current Restricted Assets: | |
| Cash and Cash Equivalents | $ 12,122 |
| Other Current Assets | 4,491 |
| Capital Assets, Net of Depreciation | 30,849 |
| Total Assets | 47,462 |
| **LIABILITIES** | |
| Current Liabilities | 4,137 |
| Noncurrent Liabilities | 23,345 |
| Total Liabilities | 27,482 |
| **NET ASSETS** | |
| Invested in Capital Assets, Net of Related Debt | 7,174 |
| Restricted Net Assets | 12,806 |
| Total Net Assets | $ 19,980 |

## Condensed Statement of Revenues, Expenses and Changes in Net Assets

(Amounts in Thousands)

| | Veterans Homes Revenue Bonds |
|---|---|
| **OPERATING REVENUES (EXPENSES)** | |
| Sale of Goods and Services | $ 35,346 |
| Other Operating Revenues | 6 |
| Operating Expenses | (32,365) |
| Net Operating Income | 2,987 |
| **NONOPERATING REVENUES (EXPENSES)** | |
| Other Nonoperating Revenues | 704 |
| Interest Expense | (1,497) |
| Change in Net Assets | 2,194 |
| Net Assets, September 1, 2006 | 17,786 |
| Net Assets, August 31, 2007 | $ 19,980 |

## Condensed Statement of Cash Flows

(Amounts in Thousands)

| | Veterans Homes Revenue Bonds |
|---|---|
| **NET CASH PROVIDED (USED) BY:** | |
| Operating Activities | $ 4,025 |
| Financing Activities | (1,828) |
| Investing Activities | (39) |
| **NET INCREASE IN CASH AND CASH EQUIVALENTS** | 2,158 |
| Cash and Cash Equivalents, September 1, 2006 | 9,964 |
| Cash and Cash Equivalents, August 31, 2007 | $ 12,122 |

# Required Supplementary Information Other Than MD&A

STATE OF TEXAS

# Budgetary Comparison Schedule
# General Fund

For the Fiscal Year Ended August 31, 2007 (Amounts in Thousands)

| | Budgetary Amounts | | Actual Amounts Budgetary Basis | Final to Actual Variance |
|---|---|---|---|---|
| | Original | Final | | |
| **REVENUES** | | | | |
| Taxes | $32,616,005 | $34,642,868 | $36,229,665 | $ 1,586,797 |
| Federal | 20,910,801 | 22,510,075 | 21,823,230 | (686,845) |
| Licenses, Fees and Permits | 2,349,227 | 2,737,681 | 2,414,277 | (323,404) |
| Interest and Other Investment Income | 392,963 | 426,438 | 610,084 | 183,646 |
| Land Income | 7,272 | 10,959 | 17,903 | 6,944 |
| Settlement of Claims | 493,721 | 524,112 | 559,445 | 35,333 |
| Sales of Goods and Services | 895,325 | 912,633 | 2,192,970 | 1,280,337 |
| Other | 1,878,320 | 2,229,853 | 2,635,894 | 406,041 |
| Total Revenues | 59,543,634 | 63,994,619 | 66,483,468 | 2,488,849 |
| **EXPENDITURES** | | | | |
| General Government | 2,980,793 | 1,997,515 | 2,058,442 | (60,927) |
| Education | 18,206,517 | 18,766,514 | 18,352,113 | 414,401 |
| Employee Benefits | 1,099,729 | 1,342 | 1,291 | 51 |
| Health and Human Services | 25,235,438 | 26,627,378 | 27,308,077 | (680,699) |
| Public Safety and Corrections | 3,068,148 | 3,997,653 | 4,276,081 | (278,428) |
| Transportation | 1,981 | 9,527 | 9,226 | 301 |
| Natural Resources and Recreation | 897,286 | 1,072,018 | 1,114,650 | (42,632) |
| Regulatory Services | 234,395 | 286,899 | 288,128 | (1,229) |
| Total Expenditures | 51,724,287 | 52,758,846 | 53,408,008 | (649,162) |
| Excess of Revenues Over Expenditures | 7,819,347 | 11,235,773 | 13,075,460 | 1,839,687 |
| **OTHER FINANCING SOURCES (USES)** | | | | |
| Transfer In | 1,806,319 | 1,334,141 | 1,425,527 | 91,386 |
| Transfer Out | (7,638,497) | (8,239,177) | (9,969,934) | (1,730,757) |
| Sale of Capital Assets | 7,070 | 14,762 | 24,671 | 9,909 |
| Insurance Recoveries | 691 | 951 | 1,120 | 169 |
| Available Beginning Balances | 1,788,010 | 6,651,068 | 8,537,151 | 1,886,083 |
| Total Other Financing Sources (Uses) | (4,036,407) | (238,255) | 18,535 | 256,790 |
| Excess of Revenues and Other Financing Sources Over Expenditures and Other Financing Uses | $ 3,782,940 | $10,997,518 | $13,093,995 | $ 2,096,477 |

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# Budgetary Comparison Schedule
# Major Special Revenue Fund – State Highway Fund

For the Fiscal Year Ended August 31, 2007 (Amounts in Thousands)

| | Budgetary Amounts | | Actual Amounts Budgetary Basis | Final to Actual Variance |
|---|---|---|---|---|
| | Original | Final | | |
| **REVENUES** | | | | |
| Taxes | $ 36,670 | $ 36,824 | $ 36,827 | $ 3 |
| Federal | 3,385,584 | 3,081,560 | 1,982,285 | (1,099,275) |
| Licenses, Fees and Permits | 989,384 | 1,039,976 | 1,063,191 | 23,215 |
| Interest and Other Investment Income | 14,647 | 3,715 | 43,994 | 40,279 |
| Land Income | 2,213 | 3,665 | 4,011 | 346 |
| Settlement of Claims | 1 | 1,364 | 219 | (1,145) |
| Sales of Goods and Services | 278,895 | 333,783 | 243,882 | (89,901) |
| Other | 9,127 | 11,798 | 20,517 | 8,719 |
| Total Revenues | 4,716,521 | 4,512,685 | 3,394,926 | (1,117,759) |
| **EXPENDITURES** | | | | |
| General Government | 10,100 | 12,439 | 11,734 | 705 |
| Education | 50,000 | 50,000 | 50,000 | |
| Health and Human Services | 10,000 | 10,000 | 10,000 | |
| Public Safety and Corrections | 431,503 | 567,490 | 595,689 | (28,199) |
| Transportation | 6,435,367 | 7,473,342 | 7,840,530 | (367,188) |
| Total Expenditures | 6,936,970 | 8,113,271 | 8,507,953 | (394,682) |
| (Deficiency) of Revenues (Under) Expenditures | (2,220,449) | (3,600,586) | (5,113,027) | (1,512,441) |
| **OTHER FINANCING SOURCES (USES)** | | | | |
| Transfer In | 2,193,855 | 2,217,693 | 4,081,160 | 1,863,467 |
| Transfer Out | | | (151,772) | (151,772) |
| Bond Proceeds* | 952,550 | 952,550 | 952,550 | |
| Sale of Capital Assets | 11,091 | 5,947 | 4,451 | (1,496) |
| Insurance Recoveries | 7,126 | 7,880 | 1,002 | (6,878) |
| Available Beginning Balances | 782,162 | 1,951 | 715,978 | 714,027 |
| Total Other Financing Sources (Uses) | 3,946,784 | 3,186,021 | 5,603,369 | 2,417,348 |
| Excess (Deficiency) of Revenues and Other Financing Sources Over (Under) Expenditures and Other Financing Uses | $ 1,726,335 | $ (414,565) | $ 490,342 | $ 904,907 |

* The state highway fund received $952.5 million in bond proceeds. These are authorized by Article 3, Sec 49-n of the Texas Constitution and Section 222.003, Texas Transportation Code.

# Note to Budgetary Comparison Schedule

The Budgetary Comparison Schedule presents comparisons of the legally adopted budget with actual data on a budgetary basis. Since accounting principles applied for purposes of developing data on a budgetary basis differ significantly from those used to present financial statements in conformity with generally accepted accounting principles (GAAP), a reconciliation of these differences is required and is presented below.

## Reconciliation of Budgetary Basis to GAAP Basis

August 31, 2007 (Amounts in Thousands)

| | General Fund | State Highway Fund |
|---|---|---|
| Excess of Revenues and Other Financing Sources Over Expenditures and Other Financing Uses – Actual Budgetary Basis | $ 13,093,995 | $ 490,342 |
| Basis of Accounting Differences: | | |
| Receivables and Deferred Revenues | (487,710) | 13,430 |
| Payables | (587,631) | 4,433 |
| Perspective Differences: | | |
| Beginning Cash Balances Reported as Other Financing Sources | (8,537,151) | (715,978) |
| Federal Program Revenues Not Budgeted | 3,722,495 | |
| Federal Program Expenditures Not Budgeted | (3,722,495) | |
| Other Revenues Not Budgeted | 140,012 | |
| Other Expenditures Not Budgeted | (117,816) | (35,691) |
| Excess (Deficiency) of Revenues and Other Financing Sources Over (Under) Expenditures and Other Financing Uses – GAAP Basis | $ 3,503,699 | $ (243,464) |

The major reconciling items between the Budgetary Comparison Schedule actual and the GAAP financial statements are due to the following items.

## Basis of Accounting Differences

Revenues and expenditures are reported on the cash basis of accounting in the Budgetary Comparison Schedule but are reported on the modified accrual basis on the GAAP financial statements. Therefore, deferred revenues, receivables and payables are included as reconciling items.

## Perspective Differences

Certain revenues and expenditures, including debt service, the Federal Food Stamps Program and the disproportionate share portion of the Federal Medical Assistance program are not budgeted by the Legislature. The activity for these programs has been excluded from the Budgetary Comparison Schedule.

The beginning cash balances are included as other financing sources in the Budgetary Comparison Schedule. The beginning fund balances are not included as financing sources on the GAAP financial statements.

## Entity Differences

Budgets are not established for sources from capital leases. These financing sources are not included in the Budgetary Comparison Schedule.

## Excess of Actual Budgetary Basis Expenditures over Final Budget

General fund - The variance of $681 million in health and human services is the result of increased expenditures made from the excess of federal revenues received over estimates for agencies in this particular function. The variance in public safety and corrections is due to the Correctional Managed Health Care Committee expenditures of $389 million not included in budgeted revenues and expenditures. The variances in general government, natural resources and recreation and regulatory services are due to expenditures made from beginning fund balance which is included in other financing sources.

Major special revenue fund - state highway fund - the combined variance of $395 million in public safety and corrections and transportation is the result of expenditures being made from beginning cash balance in the fund.

## Basis of Budgeting

The state's budget is prepared on a cash basis. The Texas Constitution limits appropriation bills to two years. The Legislative Budget Board (LBB) is required by statute to adopt an estimated rate of growth for the next biennium and calculate a limit on the amount of state tax revenue not dedicated by the Texas Constitution that is available for spending in the next biennium. If the Legislature, by adoption of a resolution approved by a record vote of a majority of the members of each house, finds that an emergency exists and identifies the nature of the emergency, the Legislature may provide appropriations in excess of the adopted limit. The Governor's Budget Office and LBB initiate the process by submitting budget requests to the Legislature. At final passage of the Appropriations Bill by the Legislature, it is sent to the state Comptroller for certification. If the state Comptroller certifies that appropriated amounts are available in the affected funds, the bill is sent to the governor. If not certified, the Legislature may pass the bill with a four-fifths majority vote. The governor has the option of vetoing the total bill or specific line-item appropriations, but does not have the authority to reduce a line item of appropriation. Upon approval by the governor, the bill becomes law and is the budget authority for state agencies to spend state funds. The state Comptroller is responsible for controlling, accounting and reporting expenditures in accordance with the expenditure budgets.

## Legal Level of Budgetary Control

The Texas Constitution requires the state Comptroller to submit a *Biennial Revenue Estimate* to the Legislature prior to each regular session. This document contains an itemized estimate of beginning cash balances, anticipated revenues based on laws then in effect and estimated expenditures from prior appropriations. The Texas Constitution also requires the state Comptroller to submit supplementary revenue estimates at any special session of the Legislature and at other necessary times to show probable changes

The level of legal control for the budget is established at the strategy (line item) level by agency. For example, "Highway Patrol," "Driver License and Records" and "Vehicle Inspection Program" are three of the strategies for the Department of Public Safety. The legal level of budgetary control is defined as the level at which the governing body must approve any over expenditure of appropriations or transfers of appropriated amounts. Agencies are authorized limited transfer authority between strategies, not to exceed 12.5 percent, by the General Appropriations Act. Transfers and expenditures are monitored against the original budget by the Comptroller's office to ensure the agency's authorized budget is not exceeded.

The level of legal control for all agencies is documented in the *Appropriation Summary Report* which is available by request from the Comptroller's office. This separate document includes budget and actual data by appropriation line item for each state agency. State agencies cannot exceed approved appropriations. In certain emergency situations, the governor may authorize additional appropriations from deficiency and emergency appropriation reserves. During fiscal 2007, $1.8 million was transferred to the Adjutant General's department to assist with disaster recovery cash flow needs. Unexpended appropriations generally lapse 60 days after the fiscal year unless they are encumbered during the 60-day "lapse" period. Other appropriations referred to as "reappropriated unexpended balances" represent the continuation of a prior year's balances for completion of a program.

# Modified Approach to Reporting Infrastructure Assets

As permitted by GASB Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*, the state has adopted the modified approach for reporting its highway system. Under the modified approach, depreciation is not reported and certain preservation and maintenance costs are expensed.

The modified approach requires that the state:

- Maintain an asset management system that includes an up-to-date inventory of eligible infrastructure assets,
- Perform condition assessments of the eligible infrastructure assets and summarize the results using a measurement scale in order to document that the eligible infrastructure assets are being preserved approximately at (or above) the condition level established and disclosed by the government and

- Estimate each year the annual amount needed to maintain and preserve the eligible infrastructure assets at the condition level established and disclosed by the government.

Although bridges are an integral part of the highway system, the state has elected to depreciate bridges. Therefore, they are not reported using the modified approach.

## Condition Assessments

The Texas Department of Transportation (TxDOT) performs yearly condition assessments through its Texas Maintenance Assessment Program (TxMAP). Under this program, visual inspections are conducted on approximately 10 percent of the interstate system and 5 percent of the non-interstate system (national, state and farm-to-market roadways). For each section of highway observed, 21 elements separated into three highway components are assessed scores from 0 to 5 (0=NA, 1=Failed, 2=Poor, 3=Fair, 4=Good, 5=Excellent) in order to determine the condition of the highways. Each element within a component is weighted according to importance and each component is weighted according to importance to determine the overall condition of the highways. The overall score is converted to a percentage measurement for reporting (1=20 percent, 2=40 percent, 3=60 percent, 4=80 percent, 5=100 percent).

## Assessed Conditions

TxDOT has adopted a minimum condition level of 80 percent for the interstate system and 75 percent for the non-interstate system.

For the current year and for prior years, the results of the condition assessments are as follows.

| Year | Interstate Condition (Minimum 80%) | Non-Interstate Condition (Minimum 75%) |
|---|---|---|
| 2007 | 84.1% | 79.5% |
| 2006 | 83.4% | 78.0% |
| 2005 | 82.1% | 77.9% |
| 2004 | 82.3% | 79.1% |
| 2003 | 81.3% | 78.5% |

## Estimated and Actual Costs for Maintenance

The table below provides a comparison between TxDOT's estimate of maintenance expenditures required to maintain the highway system at or above the adopted condition levels and the actual expenditures.

**Maintenance Cost**
(Amounts in Thousands)

| | 2007 | 2006 | 2005 | 2004 | 2003 |
|---|---|---|---|---|---|
| **INTERSTATE HIGHWAYS** | | | | | |
| Estimate | $ 438,460 | $ 469,818 | $ 314,000 | $ 400,000 | $ 400,000 |
| Actual | $ 471,925 | $ 434,088 | $ 427,107 | $ 383,933 | $ 330,766 |
| **OTHER HIGHWAYS** | | | | | |
| Estimate | $1,702,612 | $1,608,015 | $1,590,417 | $1,450,000 | $1,450,000 |
| Actual | $1,881,285 | $1,750,438 | $1,604,781 | $1,378,863 | $1,483,210 |

## Factors Affecting Condition Assessments

TxDOT continues to develop its methods for determining such estimates. As additional experience is acquired in the estimation and reporting processes, TxDOT hopes to achieve a greater correlation between the estimated maintenance expenditures needed to maintain the highway system at or above the adopted condition levels and the condition level of the highways. In comparing actual expenditures to estimated expenditures, factors such as increases in traffic, legislative mandates, budgetary constraints and environmental effects (rainfall, drought, freeze, thaw, etc.) should be considered as they may have a major impact on needed funds and the condition of Texas roads.

# Other Supplementary Information

# Combining Financial Statements and Schedules

# Governmental Funds

STATE OF TEXAS

# Combining Balance Sheet – Nonmajor Governmental Funds

August 31, 2007 (Amounts in Thousands)

| | Special Revenue Funds | Debt Service Funds | Capital Projects Funds | Permanent Funds | Total Nonmajor Funds |
|---|---|---|---|---|---|
| **ASSETS** | | | | | |
| Cash and Cash Equivalents | $2,491,024 | $ 5,540 | $ 117,370 | $ 316 | $2,614,250 |
| Short-Term Investments | 52,690 | | | 24,669 | 77,359 |
| Securities Lending Collateral | | | | 41,065 | 41,065 |
| Receivables: | | | | | |
| Accounts | 2,204 | 6 | 2,057 | | 4,267 |
| Federal | 379 | 70 | | | 449 |
| Investment Trades | | | | 1,392 | 1,392 |
| Interest and Dividends | 13,676 | 1,651 | 2 | 2,055 | 17,384 |
| Due From Other Funds | 65,842 | | 5,080 | | 70,922 |
| Interfund Receivable | 60 | | | | 60 |
| Inventories | 464 | | 85 | | 549 |
| Prepaid Items | 4 | | | | 4 |
| Investments | 11,131 | 105 | | 1,224,308 | 1,235,544 |
| Loans and Contracts | 218,009 | | | | 218,009 |
| Other Assets | 8,034 | | | | 8,034 |
| Restricted: | | | | | |
| Cash and Cash Equivalents | 158,377 | 137,833 | | | 296,210 |
| Loans and Contracts | 641,399 | | | | 641,399 |
| Other Assets | 87,433 | | | | 87,433 |
| Total Assets | $3,750,726 | $ 145,205 | $ 124,594 | $1,293,805 | $5,314,330 |
| **LIABILITIES AND FUND BALANCES** | | | | | |
| Liabilities: | | | | | |
| Payables: | | | | | |
| Accounts | $ 151,978 | $ 40 | $ 20,237 | $ 628 | $ 172,883 |
| Investment Trades | | | | 2,621 | 2,621 |
| Payroll | 7,104 | | 64 | | 7,168 |
| Federal | 18 | | | | 18 |
| Interest | 62,640 | | | | 62,640 |
| Due To Other Funds | 283,305 | | 3,086 | | 286,391 |
| Interfund Payable | | | 1,888 | 30 | 1,918 |
| Deferred Revenues | 791 | | | | 791 |
| Obligations/Securities Lending | | | | 41,065 | 41,065 |
| Other Liabilities | 2,314 | | 904 | | 3,218 |
| Total Liabilities | 508,150 | 40 | 26,179 | 44,344 | 578,713 |
| Fund Balances: | | | | | |
| Reserved (Note 13) | 896,616 | 145,165 | 109,893 | 617,427 | 1,769,101 |
| Unreserved (Note 13) | 2,345,960 | | $ (11,478) | 632,034 | 2,966,516 |
| Total Fund Balances | 3,242,576 | 145,165 | 98,415 | 1,249,461 | 4,735,617 |
| Total Liabilities and Fund Balances | $3,750,726 | $ 145,205 | $ 124,594 | $1,293,805 | $5,314,330 |

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# Combining Statement of Revenues, Expenditures and Changes in Fund Balances – Nonmajor Governmental Funds

For the Fiscal Year Ended August 31, 2007 (Amounts in Thousands)

| | Special Revenue Funds | Debt Service Funds | Capital Projects Funds | Permanent Funds | Total Nonmajor Funds |
|---|---|---|---|---|---|
| **REVENUES** | | | | | |
| Taxes | $ 724,771 | $ | $ | $ | $ 724,771 |
| Federal | 15,044 | 61 | 25 | | 15,130 |
| Licenses, Fees and Permits | 433,864 | | | | 433,864 |
| Interest and Other Investment Income | 160,626 | 13,906 | 6,795 | 160,842 | 342,169 |
| Land Income | 174 | | | 10 | 184 |
| Sales of Goods and Services | 5,977 | | 3,837 | | 9,814 |
| Other | 65,499 | 862 | 32 | | 66,393 |
| Total Revenues | 1,405,955 | 14,829 | 10,689 | 160,852 | 1,592,325 |
| **EXPENDITURES** | | | | | |
| Current: | | | | | |
| General Government | 182,907 | 245 | 22,383 | 6,254 | 211,789 |
| Education | 1,788,555 | | 2,251 | | 1,790,806 |
| Employee Benefits | 13,200 | | | | 13,200 |
| Teacher Retirement Benefits | 24 | | | | 24 |
| Health and Human Services | 19,260 | | 23,234 | | 42,494 |
| Public Safety and Corrections | 72,231 | | 8,643 | | 80,874 |
| Transportation | 4,614 | | 14,850 | | 19,464 |
| Natural Resources and Recreation | 52,902 | | 2,238 | 4 | 55,144 |
| Regulatory Services | 28,026 | | | | 28,026 |
| Capital Outlay | 4,580 | | 71,131 | | 75,711 |
| Debt Service: | | | | | |
| Principal | 35,390 | 376,653 | | | 412,043 |
| Interest | 137,302 | 166,007 | 448 | | 303,757 |
| Other Financing Fees | 10,467 | 184 | 458 | | 11,109 |
| Total Expenditures | 2,349,458 | 543,089 | 145,636 | 6,258 | 3,044,441 |
| Excess (Deficiency) of Revenues Over (Under) Expenditures | (943,503) | (528,260) | (134,947) | 154,594 | (1,452,116) |
| **OTHER FINANCING SOURCES (USES)** | | | | | |
| Transfer In | 1,729,677 | 525,359 | 3,457 | | 2,258,493 |
| Transfer Out | (1,868,238) | (2,773) | (29,573) | (21,967) | (1,922,551) |
| Bonds and Notes Issued | 2,293,752 | 214 | 175,273 | | 2,469,239 |
| Bonds Issued for Refunding | | 249,172 | | | 249,172 |
| Premiums (Discounts) on Bonds Issued | 60,307 | 14,168 | 246 | | 74,721 |
| Payment to Escrow for Advance Refunding | | (263,157) | | | (263,157) |
| Total Other Financing Sources (Uses) | 2,215,498 | 522,983 | 149,403 | (21,967) | 2,865,917 |
| Net Change in Fund Balances | 1,271,995 | (5,277) | 14,456 | 132,627 | 1,413,801 |
| Fund Balances, September 1, 2006 | 1,970,604 | 150,442 | 84,918 | 1,116,834 | 3,322,798 |
| Restatements | (23) | | (959) | | (982) |
| Fund Balances, September 1, 2006, as Restated | 1,970,581 | 150,442 | 83,959 | 1,116,834 | 3,321,816 |
| Fund Balances, August 31, 2007 | $3,242,576 | $ 145,165 | $ 98,415 | $1,249,461 | $4,735,617 |

# Nonmajor Special Revenue Funds

The **Property Tax Relief Fund** is outside the general revenue fund. The proceeds of the fund are from allocations of the computation of motor vehicle sales tax, collection of all tobacco products tax increase and calculated amounts from franchise taxes (to start in fiscal 2008). The intent of the fund will be to reduce school district property taxes.

The **Student Loan Funds** receive proceeds from the issuance of bonds that are used to make loans to qualifying students who have been admitted to attend any institution of higher education within the state of Texas.

The **Water Development Funds** receive proceeds from the sale of Texas Water Development bonds for the purpose of aiding and making funds available to various political subdivisions for projects and other authorized purposes. The funds also receive gifts or grants for the purpose of assisting economically distressed areas. Monies in the funds are invested.

The **System Benefit Fund** receives funds from a nonbypassable fee in an amount not to exceed 65 cents per megawatt hour and interest earned. The funds are used to provide funding for programs to assist low-income electric customers, customer education and school funding loss mechanism.

The **Available School Fund** receives distributions from the permanent school fund based on total return of investment assets, allocations of motor fuel taxes and appropriations made by the Legislature. The fund is to be used for the support of public schools.

The **Texas Mobility Fund** accounts for the construction, reconstruction, acquisition and expansion of state highways, including costs of design and acquisition of right of way. It provides payment of a portion of the costs of construction, publicly owned toll roads and other public transportation projects. It is financed primarily from the sale of obligations of the state, appropriations made by the legislature of revenue, including taxes, other money not otherwise dedicated by the construction and money received from a regional mobility authority that determines it has surplus revenue from turnpike projects and chooses to send the excess to this fund.

STATE OF TEXAS

# Combining Balance Sheet – Nonmajor Special Revenue Funds

August 31, 2007 (Amounts in Thousands)

| | Property Tax Relief Fund* | Student Loan Funds | Water Development Funds | System Benefit Fund | Available School Fund | Texas Mobility Fund | Other Nonmajor Special Revenue Funds** | Totals |
|---|---|---|---|---|---|---|---|---|
| **ASSETS** | | | | | | | | |
| Cash and Cash Equivalents | $730,923 | $ 2,648 | $ 93,904 | $404,312 | $12,351 | $1,125,546 | $121,340 | $2,491,024 |
| Short-Term Investments | | | 26,429 | | | | 26,261 | 52,690 |
| Receivables: | | | | | | | | |
| Accounts | | 40 | 453 | | | | 1,711 | 2,204 |
| Federal | | | | | | | 379 | 379 |
| Interest and Dividends | 2,238 | 9,618 | 882 | | 692 | | 246 | 13,676 |
| Due From Other Funds | | | | | 63,448 | | 2,394 | 65,842 |
| Interfund Receivable | | | | | | | 60 | 60 |
| Inventories | | | | | | | 464 | 464 |
| Prepaid Items | | | | | | | 4 | 4 |
| Investments | | | | | | | 11,131 | 11,131 |
| Loans and Contracts | | | 178,010 | | | | 39,999 | 218,009 |
| Other Assets | | | | | | | 8,034 | 8,034 |
| Restricted: | | | | | | | | |
| Cash and Cash Equivalents | | 156,786 | | | | | 1,591 | 158,377 |
| Loans and Contracts | | 641,399 | | | | | | 641,399 |
| Other Assets | | 87,433 | | | | | | 87,433 |
| Total Assets | $733,161 | $897,924 | $299,678 | $404,312 | $76,491 | $1,125,546 | $213,614 | $3,750,726 |
| **LIABILITIES AND FUND BALANCES** | | | | | | | | |
| Liabilities: | | | | | | | | |
| Payables: | | | | | | | | |
| Accounts | $ | $ 142 | $ 1,541 | $ 9,131 | $ | $ 2,729 | $138,435 | $ 151,978 |
| Payroll | | | 7 | | | | 7,097 | 7,104 |
| Federal | | 17 | | | | | 1 | 18 |
| Interest | | | | | | 62,640 | | 62,640 |
| Due To Other Funds | | | 373 | | | 281,957 | 975 | 283,305 |
| Deferred Revenues | | | | | | | 791 | 791 |
| Other Liabilities | | | | | | | 2,314 | 2,314 |
| Total Liabilities | 0 | 159 | 1,921 | 9,131 | 0 | 347,326 | 149,613 | 508,150 |
| Fund Balances: | | | | | | | | |
| Reserved for: | | | | | | | | |
| Encumbrances | | | 23,026 | 1,573 | | | 12,135 | 36,734 |
| Inventories | | | | | | | 464 | 464 |
| Imprest Accounts | | | | | | | 10 | 10 |
| Loans and Contracts | | 641,399 | 178,010 | | | | 39,999 | 859,408 |
| Unreserved: | | | | | | | | |
| Designated for: | | | | | | | | |
| General Government | 733,161 | | | | | | 61,888 | 795,049 |
| Regulatory Services | | | | 393,608 | | | 17,904 | 411,512 |
| Health and Human Services | | | | | | | 13,202 | 13,202 |
| Natural Resources and Recreation | | | 96,721 | | | | 30,505 | 127,226 |
| Education | | 256,366 | | | 76,491 | | 1,507 | 334,364 |
| Transportation | | | | | | 778,220 | 1,113 | 779,333 |
| Public Safety and Corrections | | | | | | | 9,140 | 9,140 |
| Employee Benefits | | | | | | | 90 | 90 |
| Teacher Retirement Benefits | | | | | | | 382 | 382 |
| Undesignated | | | | | | | (124,338) | (124,338) |
| Total Fund Balances | 733,161 | 897,765 | 297,757 | 395,181 | 76,491 | 778,220 | 64,001 | 3,242,576 |
| Total Liabilities and Fund Balances | $733,161 | $897,924 | $299,678 | $404,312 | $76,491 | $1,125,546 | $213,614 | $3,750,726 |

* This fund is a new fund that is discretely presented.

** The other nonmajor special revenue funds column includes blended component units and the special revenue funds of the Employees Retirement System of Texas and the state textbook fund. These funds do not meet the materiality threshold for separate column presentation.

STATE OF TEXAS

# Combining Statement of Revenues, Expenditures and Changes in Fund Balances – Nonmajor Special Revenue Funds

For the Fiscal Year Ended August 31, 2007 (Amounts in Thousands)

| | Property Tax Relief Fund * | Student Loan Funds | Water Development Funds | System Benefit Fund | Available School Fund | Texas Mobility Fund | Other Nonmajor Special Revenue Funds** | Totals |
|---|---|---|---|---|---|---|---|---|
| **REVENUES** | | | | | | | | |
| Taxes | $724,771 | $ | $ | $ | $ | $ | $ | $ 724,771 |
| Federal | | 317 | 11,644 | | | | 3,083 | 15,044 |
| Licenses, Fees and Permits | | | | 139,206 | | 140,481 | 154,177 | 433,864 |
| Interest and Other Investment Income | 8,390 | 68,825 | 12,015 | 16,327 | 6,096 | 36,701 | 12,272 | 160,626 |
| Land Income | | | | | | | 174 | 174 |
| Sales of Goods and Services | | | 158 | | | | 5,819 | 5,977 |
| Other | | 13 | 3,717 | | | | 61,769 | 65,499 |
| Total Revenues | 733,161 | 69,155 | 27,534 | 155,533 | 6,096 | 177,182 | 237,294 | 1,405,955 |
| **EXPENDITURES** | | | | | | | | |
| Current: | | | | | | | | |
| General Government | | | | | | | 182,907 | 182,907 |
| Education | | 31,622 | | | 1,622,907 | | 134,026 | 1,788,555 |
| Employee Benefits | | | | | | | 13,200 | 13,200 |
| Teacher Retirement Benefits | | | | | | | 24 | 24 |
| Health and Human Services | | | | | | | 19,260 | 19,260 |
| Public Safety and Corrections | | | | | | | 72,231 | 72,231 |
| Transportation | | | | | | | 4,614 | 4,614 |
| Natural Resources and Recreation | | | 27,316 | | | | 25,586 | 52,902 |
| Regulatory Services | | | | 16,531 | | 926 | 10,569 | 28,026 |
| Capital Outlay | | | 35 | | | | 4,545 | 4,580 |
| Debt Service: | | | | | | | | |
| Principal | | | | | | 35,370 | 20 | 35,390 |
| Interest | | | | | | 137,302 | | 137,302 |
| Other Financing Fees | | 899 | 84 | | | 9,484 | | 10,467 |
| Total Expenditures | 0 | 32,521 | 27,435 | 16,531 | 1,622,907 | 183,082 | 466,982 | 2,349,458 |
| Excess (Deficiency) of Revenues Over (Under) Expenditures | 733,161 | 36,634 | 99 | 139,002 | (1,616,811) | (5,900) | (229,688) | (943,503) |
| **OTHER FINANCING SOURCES (USES)** | | | | | | | | |
| Transfer In | | 706 | 1,651 | | 1,592,499 | | 134,821 | 1,729,677 |
| Transfer Out | | (61,490) | (11,486) | | (3,501) | (1,780,133) | (11,628) | (1,868,238) |
| Bonds and Notes Issued | | 72,267 | 24,665 | | | 2,196,605 | 215 | 2,293,752 |
| Premiums (Discounts) on Bonds Issued | | 2,505 | 333 | | | 57,469 | | 60,307 |
| Total Other Financing Sources (Uses) | 0 | 13,988 | 15,163 | 0 | 1,588,998 | 473,941 | 123,408 | 2,215,498 |
| Net Change in Fund Balances | 733,161 | 50,622 | 15,262 | 139,002 | (27,813) | 468,041 | (106,280) | 1,271,995 |
| Fund Balances, September 1, 2006 | | 847,140 | 282,495 | 256,179 | 104,304 | 310,179 | 170,307 | 1,970,604 |
| Restatements | | 3 | | | | | (26) | (23) |
| Fund Balances, September 1, 2006, as Restated | 0 | 847,143 | 282,495 | 256,179 | 104,304 | 310,179 | 170,281 | 1,970,581 |
| Fund Balances, August 31, 2007 | $733,161 | $897,765 | $297,757 | $395,181 | $ 76,491 | $ 778,220 | $ 64,001 | $3,242,576 |

* This fund is a new fund that is discretely presented.

** The other nonmajor special revenue funds column includes blended component units and the special revenue funds of the Employees Retirement System of Texas and the state textbook fund. These funds do not meet the materiality threshold for separate column presentation.

STATE OF TEXAS

# Budgetary Comparison Schedule
# Nonmajor Special Revenue Funds

For the Fiscal Year Ended August 31, 2007 (Amounts in Thousands)

| | Property Tax Relief Fund | | | | Student Loan Funds | | | |
|---|---|---|---|---|---|---|---|---|
| | Budgetary Amounts | | Actual Amounts Budgetary Basis | Final To Actual Variance | Budgetary Amounts | | Actual Amounts Budgetary Basis | Final To Actual Variance |
| | Original | Final | | | Original | Final | | |
| **REVENUES** | | | | | | | | |
| Taxes | $ | $504,764 | $724,771 | $220,007 | $ | $ | $ | $ |
| Federal | | | | | | | 436 | 436 |
| Licenses, Fees and Permits | | | | | | | | |
| Interest and Other Investment Income | | 7,423 | 6,152 | (1,271) | 500 | 452 | 74,899 | 74,447 |
| Land Income | | | | | | | | |
| Sales of Goods and Services | | | | | | | (40) | (40) |
| Other | | | | | | | 10 | 10 |
| Total Revenues | 0 | 512,187 | 730,923 | 218,736 | 500 | 452 | 75,305 | 74,853 |
| **EXPENDITURES** | | | | | | | | |
| General Government | | | | | | | | |
| Education | | | | | | 255,000 | 31,950 | 223,050 |
| Employee Benefits | | | | | | | | |
| Health and Human Services | | | | | | | | |
| Public Safety and Corrections | | | | | | | | |
| Transportation | | | | | | | | |
| Natural Resources and Recreation | | | | | | | | |
| Regulatory Services | | | | | | | | |
| Total Expenditures | 0 | 0 | 0 | 0 | 0 | 255,000 | 31,950 | 223,050 |
| Excess (Deficiency) of Revenues Over (Under) Expenditures | 0 | 512,187 | 730,923 | 218,736 | 500 | (254,548) | 43,355 | 297,903 |
| **OTHER FINANCING SOURCES (USES)** | | | | | | | | |
| Transfer In | | | | | | | 706 | 706 |
| Transfer Out | | | | | | | (61,491) | (61,491) |
| Bond Proceeds | | | | | | | | |
| Available Beginning Balances | | | | | 161,107 | 4,793 | 2,493 | (2,300) |
| Total Other Financing Sources (Uses) | 0 | 0 | 0 | 0 | 161,107 | 4,793 | (58,292) | (63,085) |
| Excess (Deficiency) of Revenues and Other Financing Sources Over (Under) Expenditures and Other Financing Uses | $ 0 | $512,187 | $730,923 | $218,736 | $161,607 | $(249,755) | $ (14,937) | $234,818 |

| Water Development Funds | | | | System Benefit Fund | | | | Available School Fund | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| Budgetary Amounts | | Actual Amounts Budgetary Basis | Final To Actual Variance | Budgetary Amounts | | Actual Amounts Budgetary Basis | Final To Actual Variance | Budgetary Amounts | | Actual Amounts Budgetary Basis | Final To Actual Variance |
| Original | Final | | | Original | Final | | | Original | Final | | |
| $ | $ | $ | $ | $ | $ | $ | $ | $ | $ | $ | $ |
| 22,353 | 13,695 | 11,926 | (1,769) | | | | | | | | |
| | | | | 133,883 | 143,536 | 139,205 | (4,331) | | | | |
| 14,977 | 21,052 | 13,154 | (7,898) | 217 | 12,631 | 16,327 | 3,696 | 5,055 | 11,815 | 6,162 | (5,653) |
| 174 | 220 | 955 | 735 | | | | | | | | |
| | 3,717 | 3,717 | | | | | | | | | |
| 37,504 | 38,684 | 29,752 | (8,932) | 134,100 | 156,167 | 155,532 | (635) | 5,055 | 11,815 | 6,162 | (5,653) |
| | | | | | | | | | | | |
| | | | | | | | | 1,622,000 | 1,622,000 | 1,633,701 | (11,701) |
| | | | | | | | | | | | |
| 9,544 | 23,659 | 27,778 | (4,119) | | | | | | | | |
| | | | | 33,626 | 33,893 | 7,613 | 26,280 | | | | |
| 9,544 | 23,659 | 27,778 | (4,119) | 33,626 | 33,893 | 7,613 | 26,280 | 1,622,000 | 1,622,000 | 1,633,701 | (11,701) |
| 27,960 | 15,025 | 1,974 | (13,051) | 100,474 | 122,274 | 147,919 | 25,645 | (1,616,945) | (1,610,185) | (1,627,539) | (17,354) |
| | | 1,652 | 1,652 | | | | | 1,577,951 | 1,585,756 | 1,592,500 | 6,744 |
| | | (11,485) | (11,485) | | | | | | (65) | (3,501) | (3,436) |
| 281,007 | 290,166 | 249,673 | (40,493) | 249,236 | 248,920 | 264,361 | 15,441 | (262,959) | 14,944 | 52,098 | 37,154 |
| 281,007 | 290,166 | 239,840 | (50,326) | 249,236 | 248,920 | 264,361 | 15,441 | 1,314,992 | 1,600,635 | 1,641,097 | 40,462 |
| $308,967 | $305,191 | $241,814 | $(63,377) | $349,710 | $371,194 | $412,280 | $41,086 | $ (301,953) | $ (9,550) | $ 13,558 | $23,108 |

*Concluded on the following page*

STATE OF TEXAS

# Budgetary Comparison Schedule
# Nonmajor Special Revenue Funds (concluded)

For the Fiscal Year Ended August 31, 2007 (Amounts in Thousands)

| | Texas Mobility Fund | | | | Other Nonmajor Special Revenue Funds | | | |
|---|---|---|---|---|---|---|---|---|
| | Budgetary Amounts | | Actual Amounts Budgetary Basis | Final To Actual Variance | Budgetary Amounts | | Actual Amounts Budgetary Basis | Final To Actual Variance |
| | Original | Final | | | Original | Final | | |
| **REVENUES** | | | | | | | | |
| Taxes | $ | $ | $ | $ | $ | $ | $ | $ |
| Federal | | | | | 9,290 | 23,498 | 2,238 | (21,260) |
| Licenses, Fees and Permits | 141,488 | 145,358 | 140,481 | (4,877) | 71,698 | 88,237 | 89,772 | 1,535 |
| Interest and Other Investment Income | 8,023 | 3,416 | 36,701 | 33,285 | 28,885 | 23,961 | 7,326 | (16,635) |
| Land Income | | | | | | | 173 | 173 |
| Sales of Goods and Services | | | | | 27,588 | 37,373 | 4,148 | (33,225) |
| Other | | 135,720 | | (135,720) | 21,459 | 185 | 3,005 | 2,820 |
| Total Revenues | 149,511 | 284,494 | 177,182 | (107,312) | 158,920 | 173,254 | 106,662 | (66,592) |
| **EXPENDITURES** | | | | | | | | |
| General Government | | | | | 458,631 | 246,535 | 87,271 | 159,264 |
| Education | | | | | 5,122 | 6,323 | 22,878 | (16,555) |
| Employee Benefits | | | | | 492,922 | 13,258 | 13,133 | 125 |
| Health and Human Services | | | | | 32,619 | 33,603 | 18,113 | 15,490 |
| Public Safety and Corrections | | | | | 6,302 | 6,302 | 1,410 | 4,892 |
| Transportation | 981,275 | 2,546,601 | (847) | 2,547,448 | | 3,741 | | 3,741 |
| Natural Resources and Recreation | | | | | 16,386 | 33,011 | 24,102 | 8,909 |
| Regulatory Services | | | | | | 6,637 | 10,657 | (4,020) |
| Total Expenditures | 981,275 | 2,546,601 | (847) | 2,547,448 | 1,011,982 | 349,410 | 177,564 | 171,846 |
| Excess (Deficiency) of Revenues Over (Under) Expenditures | (831,764) | (2,262,107) | 178,029 | 2,440,136 | (853,062) | (176,156) | (70,902) | 105,254 |
| **OTHER FINANCING SOURCES (USES)** | | | | | | | | |
| Transfer In | | | | | | 102 | 126,334 | 126,232 |
| Transfer Out | | | (1,780,133) | (1,780,133) | | | (7,166) | (7,166) |
| Bond Proceeds* | 2,196,605 | 2,196,605 | 2,245,218 | 48,613 | | | | |
| Available Beginning Balances | 887,588 | 133,126 | 415,069 | 281,943 | (466,631) | (60,301) | 25,169 | 85,470 |
| Total Other Financing Sources (Uses) | 3,084,193 | 2,329,731 | 880,154 | (1,449,577) | (466,631) | (60,199) | 144,337 | 204,536 |
| Excess (Deficiency) of Revenues and Other Financing Sources Over (Under) Expenditures and Other Financing Uses | $2,252,429 | $ 67,624 | $1,058,183 | $ 990,559 | $(1,319,693) | $(236,355) | $ 73,435 | $309,790 |

* The Texas mobility fund received $2.196 billion in bond proceeds. These are authorized by Article 3, Section 49-n of the Texas Constitution and Section 222.003 of the Texas Transportation Code.

# Nonmajor Debt Service Funds

The **Texas College Student Loan Bonds Interest and Sinking Fund** receives deposits from the Texas Opportunity Plan fund for payment of current interest and principal and establishment of a reserve.

The **Texas Public Finance Authority Revenue Bond Funds** receive proceeds and accrued interest from the sale of revenue bonds and provide the debt service requirements for those bonds.

The **Student Loan Revenue Bond Fund** receives proceeds from the sale of revenue bonds and gifts or grants made to the Texas Higher Education Coordinating Board. Loans may be made from the fund to students qualifying for a loan under Subchapter C, Chapter 52.

The **Texas Military Facilities Commission Refund and Improvement Bond Fund** provides for the payment of principal and interest on the Commission's outstanding revenue bonds. The fund is composed of an interest and sinking fund and a reserve fund.

The **Texas Public Finance Authority G. O. Bond Funds** receive proceeds and accrued interest from the sale of general obligation bonds and provide the debt service requirements for those bonds.

The **Texas Public Finance Authority Commercial Paper Funds** receive deposits of any accrued interest on sale of notes and pledged revenues necessary to make debt service payments.

The **Texas Water Development Board Bond Funds** receive proceeds to pay debt service on the bonds issued for the purpose of providing financial assistance for the construction of water and wastewater related projects, water supply and sewer services.

The **Texas Park Development Bond Interest and Sinking Fund** receives net receipts from entrance or gate fees and investment receipts. It is used exclusively for the purpose of paying principal of and interest on the bonds as they mature and also exchange and collection charges in connection therewith.

STATE OF TEXAS

# Combining Balance Sheet – Nonmajor Debt Service Funds

August 31, 2007 (Amounts in Thousands)

| | Texas College Student Loan Bonds Interest and Sinking Fund | Texas Public Finance Authority Revenue Bond Funds | Student Loan Revenue Bond Fund * | Texas Military Facilities Commission Refund and Improvement Bond Fund | Texas Public Finance Authority G.O. Bond Funds |
|---|---|---|---|---|---|
| **ASSETS** | | | | | |
| Cash and Cash Equivalents | $ | $ 1,399 | $ | $ 2 | $ 651 |
| Receivables: | | | | | |
| Accounts | | | | | |
| Federal | 70 | | | | |
| Interest and Dividends | 1,650 | | | | |
| Investments | | 105 | | | |
| Restricted: | | | | | |
| Cash and Cash Equivalents | 137,833 | | | | |
| Total Assets | $139,553 | $ 1,504 | $ 0 | $ 2 | $ 651 |
| **LIABILITIES AND FUND BALANCES** | | | | | |
| Liabilities: | | | | | |
| Payables: | | | | | |
| Accounts | $ 40 | $ | $ | $ | $ |
| Total Liabilities | 40 | 0 | 0 | 0 | 0 |
| Fund Balances: | | | | | |
| Reserved for Debt Service | 139,513 | 1,504 | | 2 | 651 |
| Total Fund Balances | 139,513 | 1,504 | 0 | 2 | 651 |
| Total Liabilities and Fund Balances | $139,553 | $ 1,504 | $ 0 | $ 2 | $ 651 |

* This fund has activity on the combining statement of revenues, expenditures and changes in fund balances – nonmajor debt service funds.

| Texas Public Finance Authority Commercial Paper Funds | Texas Water Development Board Bond Funds | Texas Park Development Bond Interest and Sinking Fund | Other Nonmajor Debt Service Funds | Totals |
|---|---|---|---|---|
| $ 3,242 | $ 25 | $ 3 | $ 218 | $ 5,540 |
| | 6 | | | 6 |
| | | | | 70 |
| | | | 1 | 1,651 |
| | | | | 105 |
| | | | | 137,833 |
| $ 3,242 | $ 31 | $ 3 | $ 219 | $145,205 |
| | | | | |
| $ | $ | $ | $ | $ 40 |
| 0 | 0 | 0 | 0 | 40 |
| 3,242 | 31 | 3 | 219 | 145,165 |
| 3,242 | 31 | 3 | 219 | 145,165 |
| $ 3,242 | $ 31 | $ 3 | $ 219 | $145,205 |

STATE OF TEXAS

# Combining Statement of Revenues, Expenditures and Changes in Fund Balances – Nonmajor Debt Service Funds

For the Fiscal Year Ended August 31, 2007 (Amounts in Thousands)

| | Texas College Student Loan Bonds Interest and Sinking Fund | Texas Public Finance Authority Revenue Bond Funds | Student Loan Revenue Bond Fund | Texas Military Facilities Commission Refund and Improvement Bond Fund | Texas Public Finance Authority G.O. Bond Funds |
|---|---|---|---|---|---|
| **REVENUES** | | | | | |
| Federal | $ 61 | $ | $ | $ | $ |
| Interest and Other Investment Income | 12,032 | 1,209 | 39 | 2 | 226 |
| Other | 758 | | | | 104 |
| Total Revenues | 12,851 | 1,209 | 39 | 2 | 330 |
| **EXPENDITURES** | | | | | |
| Current: | | | | | |
| General Government | | | | | 245 |
| Debt Service: | | | | | |
| Principal | 16,500 | 80,807 | | 1,540 | 233,342 |
| Interest | 26,192 | 20,880 | | 873 | 93,422 |
| Other Payments for Refunding | | | | | |
| Total Expenditures | 42,692 | 101,687 | 0 | 2,413 | 327,009 |
| Excess (Deficiency) of Revenues Over (Under) Expenditures | (29,841) | (100,478) | 39 | (2,411) | (326,679) |
| **OTHER FINANCING SOURCES (USES)** | | | | | |
| Transfer In | 52,109 | 76,151 | | 2,413 | 326,937 |
| Transfer Out | (534) | (8) | (2,210) | | (21) |
| Bonds and Notes Issued | | | | | |
| Bonds Issued for Refunding | 26,702 | | | | 202,790 |
| Premiums (Discounts) on Bonds Issued | | | | | 13,643 |
| Payment to Escrow for Advance Refunding | (26,703) | | | | (216,433) |
| Total Other Financing Sources (Uses) | 51,574 | 76,143 | (2,210) | 2,413 | 326,916 |
| Net Change in Fund Balances | 21,733 | (24,335) | (2,171) | 2 | 237 |
| Fund Balances, September 1, 2006 | 117,780 | 25,839 | 2,171 | | 414 |
| Fund Balances, August 31, 2007 | $ 139,513 | $ 1,504 | $ 0 | $ 2 | $ 651 |

| Texas Public Finance Authority Commercial Paper Funds | Texas Water Development Board Bond Funds | Texas Park Development Bond Interest and Sinking Fund | Other Nonmajor Debt Service Funds | Totals |
|---|---|---|---|---|
| $ | $ | $ | $ | $ 61 |
| 134 | 41 | 218 | 5 | 13,906 |
| | | | | 862 |
| 134 | 41 | 218 | 5 | 14,829 |
| | | | | |
| | | | | 245 |
| 25,459 | 13,420 | 5,585 | | 376,653 |
| 4,882 | 16,179 | 1,156 | 2,423 | 166,007 |
| | 184 | | | 184 |
| 30,341 | 29,783 | 6,741 | 2,423 | 543,089 |
| (30,207) | (29,742) | (6,523) | (2,418) | (528,260) |
| 29,254 | 29,563 | 6,509 | 2,423 | 525,359 |
| | | | | (2,773) |
| | | | 214 | 214 |
| | 19,680 | | | 249,172 |
| | 525 | | | 14,168 |
| | (20,021) | | | (263,157) |
| 29,254 | 29,747 | 6,509 | 2,637 | 522,983 |
| (953) | 5 | (14) | 219 | (5,277) |
| 4,195 | 26 | 17 | | 150,442 |
| $ 3,242 | $ 31 | $ 3 | $ 219 | $ 145,165 |

# Nonmajor Capital Projects Funds

The **Texas Public Finance Authority Administration Project Funds** utilize long-term financing for various state construction, repair or renovation projects. Funds are also used to refinance purchases of equipment by various state agencies.

The **Texas Parks and Wildlife Department Project Funds** are used for the acquisition and development of state park sites. Revenues from park entrance fees are used for the repayments of long-term debt incurred.

The **Texas Building and Procurement Commission Project Funds** are used to administer the state's major and minor building construction programs.

The **Texas Department of Criminal Justice Prison Project Funds** are used for construction of regional centers and for repairs and minor construction of correctional facilities.

The **Texas Youth Commission Project Funds** are used to pay for minor construction and repairs of the Texas Youth Commission.

The **Texas Health Agencies Project Funds** are used to pay for the cost of construction, repair and remodeling for certain mental health facilities and other health related projects.

The **Texas Military Facilities Commission Project Fund** is used to finance renovation and construction of new armories.

The **Texas Department of Transportation Project Funds** are used to provide financial assistance to counties for roadway projects serving border colonias.

The **Texas Historical Commission Project Funds** are used to provide financial assistance to counties for the repair and renovation of court houses.

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# Combining Balance Sheet – Nonmajor Capital Projects Funds

August 31, 2007 (Amounts in Thousands)

| | Texas Public Finance Authority Administration Project Funds | Texas Parks and Wildlife Department Project Funds | Texas Building and Procurement Commission Project Funds | Texas Department of Criminal Justice Prison Project Funds | Texas Youth Commission Project Funds |
|---|---|---|---|---|---|
| **ASSETS** | | | | | |
| Cash and Cash Equivalents | $ 4,925 | $ 20,824 | $ 10,131 | $ 22,290 | $ 983 |
| Receivables: | | | | | |
| Accounts | | | 2,006 | | |
| Interest and Dividends | | 2 | | | |
| Due From Other Funds | | | 2,774 | | 299 |
| Inventories | 2 | | | | |
| Total Assets | $ 4,927 | $ 20,826 | $ 14,911 | $ 22,290 | $ 1,282 |
| **LIABILITIES AND FUND BALANCES** | | | | | |
| Liabilities: | | | | | |
| Payables: | | | | | |
| Accounts | $ 8 | $ 357 | $ 1,871 | $ 1,922 | $ 182 |
| Payroll | 64 | | | | |
| Due To Other Funds | | 141 | | | |
| Interfund Payable | | | | | |
| Other Liabilities | | | | 904 | |
| Total Liabilities | 72 | 498 | 1,871 | 2,826 | 182 |
| Fund Balances/(Deficits): | | | | | |
| Reserved for: | | | | | |
| Encumbrances | | 5,425 | 12,952 | 31,244 | 4,872 |
| Inventories | 2 | | | | |
| Capital Projects | 4,851 | 13,486 | | | |
| Unreserved: | | | | | |
| Designated for: | | | | | |
| Public Safety and Corrections | | | | | |
| Undesignated | 2 | 1,417 | 88 | (11,780) | (3,772) |
| Total Fund Balances | 4,855 | 20,328 | 13,040 | 19,464 | 1,100 |
| Total Liabilities and Fund Balances | $ 4,927 | $ 20,826 | $ 14,911 | $ 22,290 | $ 1,282 |

| Texas Health Agencies Project Funds | Texas Military Facilities Commission Project Fund | Texas Department of Transportation Project Funds | Texas Historical Commission Project Funds | Other Nonmajor Capital Projects Funds | Totals |
|---|---|---|---|---|---|
| $ 19,201 | $ 1,231 | $ 4,828 | $ 19,686 | $ 13,271 | $ 117,370 |
| | 51 | | | | 2,057 |
| | | | | | 2 |
| 2,007 | | | | | 5,080 |
| | 83 | | | | 85 |
| $ 21,208 | $ 1,365 | $ 4,828 | $ 19,686 | $ 13,271 | $ 124,594 |
| | | | | | |
| $ 13,228 | $ 12 | $ 1,550 | $ 358 | $ 749 | $ 20,237 |
| | | | | | 64 |
| 2,945 | | | | | 3,086 |
| 1,888 | | | | | 1,888 |
| | | | | | 904 |
| 18,061 | 12 | 1,550 | 358 | 749 | 26,179 |
| | | | | | |
| 1,133 | 410 | | 18,230 | 2,176 | 76,442 |
| | 83 | | | | 85 |
| 307 | | 3,278 | 1,098 | 10,346 | 33,366 |
| | | | | | |
| | 860 | | | | 860 |
| 1,707 | | | | | (12,338) |
| 3,147 | 1,353 | 3,278 | 19,328 | 12,522 | 98,415 |
| $ 21,208 | $ 1,365 | $ 4,828 | $ 19,686 | $ 13,271 | $ 124,594 |

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# Combining Statement of Revenues, Expenditures and Changes in Fund Balances – Nonmajor Capital Projects Funds

For the Fiscal Year Ended August 31, 2007 (Amounts in Thousands)

| | Texas Public Finance Authority Administration Project Funds | Texas Parks and Wildlife Department Project Funds | Texas Building and Procurement Commission Project Funds | Texas Department of Criminal Justice Prison Project Funds | Texas Youth Commission Project Funds |
|---|---|---|---|---|---|
| **REVENUES** | | | | | |
| Federal | $ | $ | $ | $ | $ 25 |
| Interest and Other Investment Income | 370 | 728 | 667 | 1,815 | 114 |
| Sales of Goods and Services | | | 3,677 | | |
| Other | 26 | | | | |
| Total Revenues | 396 | 728 | 4,344 | 1,815 | 139 |
| **EXPENDITURES** | | | | | |
| Current: | | | | | |
| General Government | 7,458 | | 3,986 | | |
| Education | | | | | |
| Health and Human Services | | | | | |
| Public Safety and Corrections | | | | 7,704 | |
| Transportation | | | | | |
| Natural Resources and Recreation | | 2,238 | | | |
| Capital Outlay | | 7,633 | 9,727 | 32,060 | 2,646 |
| Debt Service: | | | | | |
| Interest | | | | | |
| Other Financing Fees | | 328 | | | |
| Total Expenditures | 7,458 | 10,199 | 13,713 | 39,764 | 2,646 |
| (Deficiency) of Revenues (Under) Expenditures | (7,062) | (9,471) | (9,369) | (37,949) | (2,507) |
| **OTHER FINANCING SOURCES (USES)** | | | | | |
| Transfer In | 1,261 | | 500 | | 299 |
| Transfer Out | (28,123) | (121) | (100) | (30) | |
| Bonds and Notes Issued | 31,211 | 20,285 | 5,500 | 50,000 | |
| Premiums (Discounts) on Bonds Issued | | 215 | | | |
| Total Other Financing Sources (Uses) | 4,349 | 20,379 | 5,900 | 49,970 | 299 |
| Net Change in Fund Balances | (2,713) | 10,908 | (3,469) | 12,021 | (2,208) |
| Fund Balances, September 1, 2006 | 7,568 | 9,420 | 16,509 | 7,443 | 3,308 |
| Restatements | | | | | |
| Fund Balances, September 1, 2006, as Restated | 7,568 | 9,420 | 16,509 | 7,443 | 3,308 |
| Fund Balances, August 31, 2007 | $ 4,855 | $ 20,328 | $ 13,040 | $ 19,464 | $ 1,100 |

| Texas Health Agencies Project Funds | Texas Military Facilities Commission Project Fund | Texas Department of Transportation Project Funds | Texas Historical Commission Project Funds | Other Nonmajor Capital Projects Funds | Totals |
|---|---|---|---|---|---|
| $ | $ | $ | $ | $ | $ 25 |
| 843 | 104 | 484 | 1,173 | 497 | 6,795 |
| 102 | 58 | | | | 3,837 |
| 4 | | | | 2 | 32 |
| 949 | 162 | 484 | 1,173 | 499 | 10,689 |
| | | | | | |
| | | | | | |
| | | | 10,939 | | 22,383 |
| | | | | 2,251 | 2,251 |
| 23,234 | | | | | 23,234 |
| | 768 | | | 171 | 8,643 |
| | | 14,850 | | | 14,850 |
| | | | | | 2,238 |
| 11,191 | 989 | | 1,192 | 5,693 | 71,131 |
| | | | | | |
| 448 | | | | | 448 |
| | | | 130 | | 458 |
| 34,873 | 1,757 | 14,850 | 12,261 | 8,115 | 145,636 |
| | | | | | |
| (33,924) | (1,595) | (14,366) | (11,088) | (7,616) | (134,947) |
| | | | | | |
| 1,282 | 115 | | | | 3,457 |
| (563) | (29) | | (491) | (116) | (29,573) |
| 34,500 | | 15,000 | 8,777 | 10,000 | 175,273 |
| | | | 31 | | 246 |
| 35,219 | 86 | 15,000 | 8,317 | 9,884 | 149,403 |
| | | | | | |
| 1,295 | (1,509) | 634 | (2,771) | 2,268 | 14,456 |
| | | | | | |
| 2,811 | 2,862 | 2,644 | 22,099 | 10,254 | 84,918 |
| (959) | | | | | (959) |
| 1,852 | 2,862 | 2,644 | 22,099 | 10,254 | 83,959 |
| | | | | | |
| $ 3,147 | $ 1,353 | $ 3,278 | $ 19,328 | $ 12,522 | $ 98,415 |

# Nonmajor Permanent Funds

The **Permanent Health Fund for Higher Education** is a permanent fund established by the Legislature from a portion of the money received in the settlement of The State of Texas v. The American Tobacco Co., et.al. The corpus of the account has been designated by the Legislature to be preserved. Distributions of earnings on the account are to be transferred to other accounts and used for health care costs, tobacco education and enforcement.

The **Permanent Higher Education Fund** is established by legislation to dedicate portions of the state's revenues. The principal shall never be expended. At the beginning of the fiscal year after the fund reaches $2 billion and each year thereafter, 10 percent of the interest, dividends and other income accruing from investments during the previous fiscal year shall be deposited and become part of the principal of the fund. Out of the remainder of the annual income, there shall be appropriated an annual sum sufficient to pay the principal and interest due on the bonds and notes issued and the balance shall be allocated for appropriations made in Article VII, sec. 17(a) of the Texas Constitution.

The **Texas Commission on the Arts Trust Fund** consists of the Texas cultural endowment fund account held outside the treasury used for initial seed money for the endowment and deposits toward the endowment. This fund is to provide a stable funding source for the enhancement of art education, encourage economic development and advance the well being of communities.

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# Combining Balance Sheet – Nonmajor Permanent Funds

August 31, 2007 (Amounts in Thousands)

| | Permanent Health Fund for Higher Education | Permanent Higher Education Fund | Texas Commission on the Arts Trust Fund | Other Nonmajor Permanent Funds | Totals |
|---|---|---|---|---|---|
| **ASSETS** | | | | | |
| Cash and Cash Equivalents | $ 4 | $ 5 | $ 20 | $ 287 | $ 316 |
| Short-Term Investments | 12,287 | 12,382 | | | 24,669 |
| Securities Lending Collateral | 20,314 | 20,751 | | | 41,065 |
| Receivables: | | | | | |
| Investment Trades | 689 | 703 | | | 1,392 |
| Interest and Dividends | 1,028 | 1,026 | | 1 | 2,055 |
| Investments | 601,640 | 604,951 | 15,157 | 2,560 | 1,224,308 |
| Total Assets | $ 635,962 | $ 639,818 | $ 15,177 | $ 2,848 | $1,293,805 |
| **LIABILITIES AND FUND BALANCES** | | | | | |
| Liabilities: | | | | | |
| Payables: | | | | | |
| Accounts | $ 314 | $ 314 | $ | $ | $ 628 |
| Investment Trades | 1,295 | 1,326 | | | 2,621 |
| Interfund Payable | | | | 30 | 30 |
| Obligations/Securities Lending | 20,314 | 20,751 | | | 41,065 |
| Total Liabilities | 21,923 | 22,391 | 0 | 30 | 44,344 |
| Fund Balances: | | | | | |
| Reserved for: | | | | | |
| Education | | 617,427 | | | 617,427 |
| Unreserved: | | | | | |
| Designated for: | | | | | |
| Permanent Health Fund | 614,039 | | | 2,500 | 616,539 |
| Undesignated | | | 15,177 | 318 | 15,495 |
| Total Fund Balances | 614,039 | 617,427 | 15,177 | 2,818 | 1,249,461 |
| Total Liabilities and Fund Balances | $ 635,962 | $ 639,818 | $ 15,177 | $ 2,848 | $1,293,805 |

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# Combining Statement of Revenues, Expenditures and Changes in Fund Balances – Nonmajor Permanent Funds

For the Fiscal Year Ended August 31, 2007 (Amounts in Thousands)

| | Permanent Health Fund for Higher Education | Permanent Higher Education Fund | Texas Commission on the Arts Trust Fund | Other Nonmajor Permanent Funds | Totals |
|---|---|---|---|---|---|
| **REVENUES** | | | | | |
| Interest and Other Investment Income | $ 80,649 | $ 78,142 | $ 1,897 | $ 154 | $ 160,842 |
| Land Income | | | | 10 | 10 |
| Total Revenues | 80,649 | 78,142 | 1,897 | 164 | 160,852 |
| **EXPENDITURES** | | | | | |
| Current: | | | | | |
| General Government | 2,992 | 2,971 | 103 | 188 | 6,254 |
| Natural Resources and Recreation | | | | 4 | 4 |
| Total Expenditures | 2,992 | 2,971 | 103 | 192 | 6,258 |
| Excess (Deficiency) of Revenues Over (Under) Expenditures | 77,657 | 75,171 | 1,794 | (28) | 154,594 |
| **OTHER FINANCING (USES)** | | | | | |
| Transfer Out | (21,638) | | (318) | (11) | (21,967) |
| Total Other Financing (Uses) | (21,638) | 0 | (318) | (11) | (21,967) |
| Net Change in Fund Balances | 56,019 | 75,171 | 1,476 | (39) | 132,627 |
| Fund Balances, September 1, 2006 | 558,020 | 542,256 | 13,701 | 2,857 | 1,116,834 |
| Fund Balances, August 31, 2007 | $ 614,039 | $ 617,427 | $ 15,177 | $ 2,818 | $1,249,461 |

# Enterprise Funds

# Nonmajor Enterprise Funds

The **Texas Workforce Commission Unemployment Trust Fund Accounts** are funds collected under the Old Age and Survivors Insurance Act on deposit with the treasurer of the United States of America to the credit of this state. It also serves as a clearance fund for the Unemployment Compensation fund held by the United States Treasury and as a holding account for paying benefits under the Unemployment Compensation Act.

The **Texas Department of Housing and Community Affairs** issues bonds to assist in financing the purchase of homes or the construction of rental housing for families with low to moderate incomes. Loan payments and rentals provide the revenue for debt service payments.

The **Texas Lottery Commission** accounts for the operation of lottery games for the state. This fund includes both the net proceeds from the lottery and accounts for future installment obligations to prize winners.

The **Veterans Land Board Loan Program Funds** receive proceeds from the sale of bonds that are used to administer, originate and service loans from land, housing and home improvement for those qualifying veterans.

The **Texas Department of Criminal Justice Institutional Division** accounts for the proceeds of the institutional division's commissary operations and other miscellaneous revenue.

The **Teacher Retirement System** includes the TRS-ActiveCare fund which provides health care coverage to employees (and their dependents) of participating public education entities.

The **Texas Prepaid Higher Education Tuition Board** offers a program that allows Texas families to lock in the cost of tomorrow's college tuition and required fees at today's prices.

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# Combining Statement of Net Assets
# Nonmajor Enterprise Funds

August 31, 2007 (Amounts in Thousands)

| | Texas Workforce Commission Unemployment Trust Fund Accounts | Texas Department of Housing and Community Affairs | Texas Lottery Commission | Veterans Land Board Loan Program Funds |
|---|---|---|---|---|
| **ASSETS** | | | | |
| Current Assets: | | | | |
| Cash and Cash Equivalents | $ 865 | $ 42,463 | $ 100,611 | $ |
| Securities Lending Collateral | | | | 38,726 |
| Restricted: | | | | |
| Cash and Cash Equivalents | 2,324,104 | 122,252 | | 95,838 |
| Short-Term Investments | | 204,299 | 181,688 | 47,938 |
| Loans and Contracts | | 9,872 | | 73,427 |
| Receivables: | | | | |
| Federal | 2,591 | | | 3,266 |
| Accounts | 183,725 | 1,449 | 72,805 | 43,118 |
| Interest and Dividends | 18,171 | 20,004 | | 11,265 |
| Investment Trades | | | | |
| Other | | 75 | | |
| Due From Other Funds | 2,927 | | 27,813 | |
| Inventories | | 15 | 6,855 | |
| Prepaid Items | | | 6,222 | |
| Loans and Contracts | | 1,000 | | |
| Other Current Assets | | 213 | | |
| Total Current Assets | 2,532,383 | 401,642 | 395,994 | 313,578 |
| Noncurrent Assets: | | | | |
| Restricted: | | | | |
| Cash and Cash Equivalents | | | | |
| Investments | | 1,261,379 | 1,095,087 | 251,832 |
| Receivables | | | | |
| Loans and Contracts | | 1,245,757 | | 2,006,465 |
| Other | | | | 2,112 |
| Loans and Contracts | | 29,181 | | |
| Capital Assets: | | | | |
| Nondepreciable | | | | 3,500 |
| Depreciable | | 1,570 | 5,588 | 78,644 |
| Accumulated Depreciation | | (1,378) | (4,937) | (14,924) |
| Assets Held in Trust | | | | |
| Other Noncurrent Assets | 575 | 11,950 | | |
| Total Noncurrent Assets | 575 | 2,548,459 | 1,095,738 | 2,327,629 |
| Total Assets | 2,532,958 | 2,950,101 | 1,491,732 | 2,641,207 |

| Texas Department of Criminal Justice Institutional Division | Teacher Retirement System | Texas Prepaid Higher Education Tuition Board | Other Nonmajor Enterprise Funds | Totals |
|---|---|---|---|---|
| $ | $ 497,369 | $ 7,212 | $ 16,703 | $ 665,223 |
| | | 304,334 | | 343,060 |
| | | 52,460 | | 2,594,654 |
| | | | | 433,925 |
| | | | | 83,299 |
| | | | | 5,857 |
| 1,153 | 38,912 | | 280 | 341,442 |
| | 2,280 | 10,050 | 90 | 61,860 |
| | | 146,029 | | 146,029 |
| | | | 2,651 | 2,726 |
| 32,817 | | | | 63,557 |
| 6,757 | | | 862 | 14,489 |
| | | | 123 | 6,345 |
| | | 53,423 | 11,823 | 66,246 |
| | | | | 213 |
| 40,727 | 538,561 | 573,508 | 32,532 | 4,828,925 |
| | | | | |
| | | | 5,465 | 5,465 |
| | | 1,810,472 | 47 | 4,418,817 |
| | | 164,537 | | 164,537 |
| | | | | 3,252,222 |
| | | | | 2,112 |
| | | | | 29,181 |
| 283 | | | 409 | 4,192 |
| 4,260 | | 2,269 | 5,143 | 97,474 |
| (3,701) | | (2,256) | (3,366) | (30,562) |
| | | | 1,253 | 1,253 |
| | | | | 12,525 |
| 842 | 0 | 1,975,022 | 8,951 | 7,957,216 |
| 41,569 | 538,561 | 2,548,530 | 41,483 | 12,786,141 |

*Concluded on the following page*

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# Combining Statement of Net Assets
# Nonmajor Enterprise Funds (concluded)

August 31, 2007 (Amounts in Thousands)

| | Texas Workforce Commission Unemployment Trust Fund Accounts | Texas Department of Housing and Community Affairs | Texas Lottery Commission | Veterans Land Board Loan Program Funds |
|---|---|---|---|---|
| **LIABILITIES** | | | | |
| Current Liabilities: | | | | |
| Payables: | | | | |
| Accounts | $ 55,628 | $ 834 | $ 26,619 | $ 9,852 |
| Payroll | | | 1,544 | |
| Investment Trades | | | | |
| Interest | 2,631 | 40,093 | | 10,974 |
| Due To Other Funds | | | 17,636 | 275 |
| Interfund Payable | | 169 | | |
| Deferred Revenue | 49,461 | 35,104 | | 168 |
| Claims and Judgments | | | 42 | |
| Obligations/Securities Lending | | | | 38,726 |
| Capital Lease Obligations | | | | |
| Employees' Compensable Leave | | 587 | 1,101 | |
| Notes and Loans Payable | | | | |
| General Obligation Bonds Payable | | | | 61,231 |
| Revenue Bonds Payable | 167,919 | 23,712 | | 330 |
| Liabilities Payable From Restricted Assets | | | 309,028 | |
| Other Current Liabilities | | 8,376 | 12,342 | 320 |
| Total Current Liabilities | 275,639 | 108,875 | 368,312 | 121,876 |
| Noncurrent Liabilities: | | | | |
| Capital Lease Obligations | | | | |
| Employees' Compensable Leave | | 169 | 786 | |
| Liabilities Payable From Restricted Assets | | | 1,085,959 | |
| Notes and Loans Payable | | 32,869 | | |
| General Obligation Bonds Payable | | | | 1,808,023 |
| Revenue Bonds Payable | 233,765 | 2,558,661 | | 24,114 |
| Assets Held for Others | | | | |
| Other Noncurrent Liabilities | | 195,821 | | |
| Total Noncurrent Liabilities | 233,765 | 2,787,520 | 1,086,745 | 1,832,137 |
| Total Liabilities | 509,404 | 2,896,395 | 1,455,057 | 1,954,013 |
| **NET ASSETS** | | | | |
| Invested in Capital Assets, Net of Related Debt | | 191 | 651 | 43,545 |
| Restricted for: | | | | |
| Debt Retirement | 184,151 | 11,350 | | |
| Veterans Land Board Housing Programs | | | | 643,649 |
| Unemployment Trust Funds | 2,240,512 | | | |
| Other | | | 16,845 | |
| Unrestricted | (401,109) | 42,165 | 19,179 | |
| Total Net Assets | $ 2,023,554 | $ 53,706 | $ 36,675 | $ 687,194 |

| Texas Department of Criminal Justice Institutional Division | Teacher Retirement System | Texas Prepaid Higher Education Tuition Board | Other Nonmajor Enterprise Funds | Totals |
|---|---|---|---|---|
| $ 3,646 | $ 103,175 | $ 1,973 | $ 2,650 | $ 204,377 |
| 1,380 | | | 708 | 3,632 |
| | | 146,216 | | 146,216 |
| | | | | 53,698 |
| | | 73 | | 17,984 |
| | | | | 169 |
| | | | 149 | 84,882 |
| | | | | 42 |
| | | 304,334 | | 343,060 |
| | | | 119 | 119 |
| 993 | 91 | 49 | 465 | 3,286 |
| | | | 8,232 | 8,232 |
| | | | | 61,231 |
| | | | | 191,961 |
| | | 194,435 | | 503,463 |
| | | | | 21,038 |
| 6,019 | 103,266 | 647,080 | 12,323 | 1,643,390 |
| | | | | |
| | | | 326 | 326 |
| 381 | | 4 | 289 | 1,629 |
| | | 2,066,042 | | 3,152,001 |
| | | | | 32,869 |
| | | | | 1,808,023 |
| | | | | 2,816,540 |
| | | | 1,255 | 1,255 |
| | | | | 195,821 |
| 381 | 0 | 2,066,046 | 1,870 | 8,008,464 |
| 6,400 | 103,266 | 2,713,126 | 14,193 | 9,651,854 |
| | | | | |
| 842 | | 14 | 458 | 45,701 |
| | | | | 195,501 |
| | | | | 643,649 |
| | | | | 2,240,512 |
| | | | 470 | 17,315 |
| 34,327 | 435,295 | (164,610) | 26,362 | (8,391) |
| $ 35,169 | $ 435,295 | $ (164,596) | $ 27,290 | $ 3,134,287 |

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# Combining Statement of Revenues, Expenses and Changes in Fund Net Assets
## Nonmajor Enterprise Funds

For the Fiscal Year Ended August 31, 2007 (Amounts in Thousands)

| | Texas Workforce Commission Unemployment Trust Fund Accounts | Texas Department of Housing and Community Affairs | Texas Lottery Commission | Veterans Land Board Loan Program Funds |
|---|---|---|---|---|
| **OPERATING REVENUES** | | | | |
| Lottery Collections | $ | $ | $ 3,774,555 | $ |
| Auxiliary Enterprises - Pledged | | | | |
| Unemployment Taxes | 1,665,242 | | | |
| Other Sales of Goods and Services | | | | 6,434 |
| Other Sales of Goods and Services - Pledged | | | | 28,805 |
| Interest and Investment Income | | 134,052 | | 107,903 |
| Federal Revenue | 67,862 | | | 16,687 |
| Premium Revenue | | | | |
| Other Revenues | 83,606 | 13,969 | 260 | 21 |
| Other Revenues - Pledged | | | | |
| Total Operating Revenues | 1,816,710 | 148,021 | 3,774,815 | 159,850 |
| **OPERATING EXPENSES** | | | | |
| Cost of Goods Sold | | | | |
| Salaries and Wages | | 6,963 | 14,869 | |
| Payroll Related Costs | | 1,531 | 3,591 | |
| Professional Fees and Services | | 1,274 | 3,237 | 44,951 |
| Travel | | 216 | 268 | 32 |
| Materials and Supplies | | 248 | 1,587 | 2,256 |
| Communication and Utilities | | 132 | 523 | 6 |
| Repairs and Maintenance | | 349 | 240 | 108 |
| Rentals and Leases | | 66 | 8,330 | |
| Printing and Reproduction | | 13 | 14,920 | 4 |
| Depreciation and Amortization | | 979 | 234 | 3,221 |
| Unemployment Benefit Payments | 1,181,349 | | | |
| Bad Debt Expense | | 2,242 | 292 | |
| Interest Expense | | 131,808 | 11 | 92,079 |
| Lottery Fees and Other Costs | | | 295,703 | |
| Lottery Prize Payments | | | 2,315,247 | |
| Employee/Participant Benefit Payments | | | | |
| Other Expenses | | 14,452 | 32,033 | 5,470 |
| Total Operating Expenses | 1,181,349 | 160,273 | 2,691,085 | 148,127 |
| Operating Income (Loss) | 635,361 | (12,252) | 1,083,730 | 11,723 |

| Texas Department of Criminal Justice Institutional Division | Teacher Retirement System | Texas Prepaid Higher Education Tuition Board | Other Nonmajor Enterprise Funds | Totals |
|---|---|---|---|---|
| $ | $ | $ | $ | $ 3,774,555 |
| 81,864 | | | | 81,864 |
| | | | | 1,665,242 |
| | | 7,415 | 7,675 | 21,524 |
| | | | | 28,805 |
| | | | 721 | 242,676 |
| | | | | 84,549 |
| | 939,879 | | | 939,879 |
| 943 | | 1,587 | 21,834 | 122,220 |
| | | | 43 | 43 |
| 82,807 | 939,879 | 9,002 | 30,273 | 6,961,357 |
| | | | | |
| 56,925 | | | 1,764 | 58,689 |
| 12,776 | 775 | 777 | 7,470 | 43,630 |
| 3,861 | 198 | 175 | 1,714 | 11,070 |
| | 713 | 6,963 | 9,655 | 66,793 |
| 52 | 3 | 3 | 63 | 637 |
| 684 | 10 | 92 | 533 | 5,410 |
| 11 | 2 | 54 | 418 | 1,146 |
| 184 | | 308 | 271 | 1,460 |
| 602 | 69 | 24 | 1,440 | 10,531 |
| 68 | 2 | 28 | 68 | 15,103 |
| 121 | | 22 | 499 | 5,076 |
| | | | | 1,181,349 |
| | | | 38 | 2,572 |
| 1 | | | | 223,899 |
| | | | | 295,703 |
| | | | | 2,315,247 |
| | 908,069 | 256,502 | | 1,164,571 |
| 20 | 4 | 7,457 | 1,863 | 61,299 |
| 75,305 | 909,845 | 272,405 | 25,796 | 5,464,185 |
| 7,502 | 30,034 | (263,403) | 4,477 | 1,497,172 |

*Concluded on the following page*

STATE OF TEXAS

# Combining Statement of Revenues, Expenses and Changes in Fund Net Assets
## Nonmajor Enterprise Funds (concluded)

For the Fiscal Year Ended August 31, 2007 (Amounts in Thousands)

| | Texas Workforce Commission Unemployment Trust Fund Accounts | Texas Department of Housing and Community Affairs | Texas Lottery Commission | Veterans Land Board Loan Program Funds |
|---|---|---|---|---|
| **NONOPERATING REVENUES (EXPENSES)** | | | | |
| Federal Revenue | $ | $ | $ | $ 2,497 |
| Gifts | | | | 9 |
| Interest and Investment Income | 104,685 | | 13,844 | 25,617 |
| Loan Premium and Fees on Securities Lending | | | | |
| Investing Actvities Expense | | | | |
| Interest Expense | (21,674) | | | (1,498) |
| Borrower Rebates and Agent Fees | | | | (3,453) |
| Gain on Sale of Capital Assets | | | | |
| Settlement of Claims | | | | |
| Claims and Judgments | | | (126) | |
| Other Revenues | | | | |
| Other Expenses | (1,585) | | | |
| Total Nonoperating Revenues (Expenses) | 81,426 | 0 | 13,718 | 23,172 |
| Income (Loss) Before Transfers | 716,787 | (12,252) | 1,097,448 | 34,895 |
| **CAPITAL CONTRIBUTIONS, SPECIAL ITEMS AND TRANSFERS** | | | | |
| Capital Contributions - Other | | | | |
| Special Items | (318,813) | | | |
| Transfer In | 2,156 | 3,008 | | 236 |
| Transfer Out | | | (1,093,020) | (20,963) |
| Total Capital Contributions, Special Items and Transfers | (316,657) | 3,008 | (1,093,020) | (20,727) |
| Change in Net Assets | 400,130 | (9,244) | 4,428 | 14,168 |
| Net Assets, September 1, 2006 | 1,623,424 | 62,950 | 32,247 | 673,026 |
| Restatements | | | | |
| Net Assets, September 1, 2006, as Restated | 1,623,424 | 62,950 | 32,247 | 673,026 |
| Net Assets, August 31, 2007 | $ 2,023,554 | $ 53,706 | $ 36,675 | $ 687,194 |

| Texas Department of Criminal Justice Institutional Division | Teacher Retirement System | Texas Prepaid Higher Education Tuition Board | Other Nonmajor Enterprise Funds | Totals |
|---|---|---|---|---|
| $ | $ | $ | $ | $ 2,497 |
| | | | | 9 |
| | 26,016 | 208,487 | 1,086 | 379,735 |
| | | 17,210 | | 17,210 |
| | | (18) | | (18) |
| | | | (559) | (23,731) |
| | | (16,519) | | (19,972) |
| | | | 2 | 2 |
| 2 | | | 6 | 8 |
| | | | | (126) |
| | 47 | | 12 | 59 |
| | | | | (1,585) |
| 2 | 26,063 | 209,160 | 547 | 354,088 |
| 7,504 | 56,097 | (54,243) | 5,024 | 1,851,260 |
| | | | | |
| | | (16) | | (16) |
| | | | | (318,813) |
| 4,875 | | | 693 | 10,968 |
| (14,373) | | | (805) | (1,129,161) |
| (9,498) | 0 | (16) | (112) | (1,437,022) |
| (1,994) | 56,097 | (54,259) | 4,912 | 414,238 |
| 37,163 | 379,198 | (110,337) | 22,373 | 2,720,044 |
| | | | 5 | 5 |
| 37,163 | 379,198 | (110,337) | 22,378 | 2,720,049 |
| $ 35,169 | $ 435,295 | $ (164,596) | $ 27,290 | $ 3,134,287 |

STATE OF TEXAS

# Combining Statement of Cash Flows – Nonmajor Enterprise Funds

For the Fiscal Year Ended August 31, 2007 (Amounts in Thousands)

| | Texas Workforce Commission Unemployment Trust Fund Accounts | Texas Department of Housing and Community Affairs | Texas Lottery Commission | Veterans Land Board Loan Program Funds |
|---|---|---|---|---|
| **CASH FLOWS FROM OPERATING ACTIVITIES** | | | | |
| Receipts from Customers | $ 1,384,758 | $ | $ 3,694,151 | $ 52,020 |
| Proceeds from Research Grants and Contracts | 68,441 | | | |
| Proceeds from Loan Programs | | 187,600 | | 555,437 |
| Proceeds from Other Revenues | 89,612 | 18,642 | | 1,307 |
| Payments to Suppliers for Goods and Services | | (16,071) | (356,408) | (47,420) |
| Payments to Employees | | (8,350) | (18,230) | |
| Payments for Loans Provided | | (200,575) | | (610,460) |
| Payments for Other Expenses | (1,215,543) | | (2,254,397) | (4,649) |
| Net Cash Provided by Operating Activities | 327,268 | (18,754) | 1,065,116 | (53,765) |
| **CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES** | | | | |
| Proceeds from Debt Issuance | | 503,956 | | 230,253 |
| Proceeds from Transfers from Other Funds | 4,275,287 | 10,707 | | 95,114 |
| Proceeds from Other Financing Activities | | | 151,537 | 163,623 |
| Payments of Principal on Debt Issuance | (321,292) | (215,762) | | (235,644) |
| Payments of Interest | (22,884) | (124,027) | | |
| Payments of Other Costs on Debt Issuance | | (3,017) | | |
| Payments for Transfers to Other Funds | (4,273,360) | (7,566) | (1,089,518) | (281,214) |
| Payments for Other Uses | (258) | | (163,799) | |
| Net Cash Provided by Noncapital Financing Activities | (342,507) | 164,291 | (1,101,780) | (27,868) |
| **CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES** | | | | |
| Proceeds from Sale of Capital Assets | | | | 3,057 |
| Proceeds from Other Financing Activities | | | | 820 |
| Payments for Additions to Capital Assets | | (12) | (135) | (4,041) |
| Payments of Principal on Debt Issuance | | | | (1,809) |
| Net Cash Provided by Capital and Related Financing Activities | 0 | (12) | (135) | (1,973) |
| **CASH FLOWS FROM INVESTING ACTIVITIES** | | | | |
| Proceeds from Sale of Investments | | 639,478 | 163,799 | 181,280 |
| Proceeds from Interest and Investment Income | 103,268 | 75,536 | 16 | 27,211 |
| Payments to Acquire Investments | | (857,364) | (152,713) | (129,293) |
| Payments for Nonprogram Loans Provided | | | | |
| Net Cash Provided by Investing Activities | 103,268 | (142,350) | 11,102 | 79,198 |
| Net Increase (Decrease) in Cash and Cash Equivalents | 88,029 | 3,175 | (25,697) | (4,408) |
| Cash and Cash Equivalents, September 1, 2006 | 2,236,940 | 161,540 | 126,308 | 100,415 |
| Restatements | | | | (169) |
| Cash and Cash Equivalents, September 1, 2006, as Restated | 2,236,940 | 161,540 | 126,308 | 100,246 |
| Cash and Cash Equivalents, August 31, 2007 | $ 2,324,969 | $ 164,715 | $ 100,611 | $ 95,838 |

| Texas Department of Criminal Justice Institutional Division | Teacher Retirement System | Texas Prepaid Higher Education Tuition Board | Other Nonmajor Enterprise Funds | Totals |
|---|---|---|---|---|
| $ 81,863 | $ 933,915 | $ 66,383 | $ 7,745 | $ 6,220,835 |
| | | | | 68,441 |
| | | | 5,299 | 748,336 |
| 943 | | 227 | 21,172 | 131,903 |
| (58,891) | (898,251) | (15,536) | (1,502) | (1,394,079) |
| (16,637) | | | (9,047) | (52,264) |
| | | | (4,000) | (815,035) |
| (1,622) | (1,671) | (92,838) | (14,458) | (3,585,178) |
| 5,656 | 33,993 | (41,764) | 5,209 | 1,322,959 |
| | | | | |
| | | | | 734,209 |
| 4,875 | | | 6,770 | 4,392,753 |
| | | | 17 | 315,177 |
| | | | (4,768) | (777,466) |
| | | | (20) | (146,931) |
| | | | (19) | (3,036) |
| (10,533) | | | (6,883) | (5,669,074) |
| | | | (28) | (164,085) |
| (5,658) | 0 | 0 | (4,931) | (1,318,453) |
| | | | | |
| | | | 2 | 3,059 |
| | | | | 820 |
| | | | (352) | (4,540) |
| | | | | (1,809) |
| 0 | 0 | 0 | (350) | (2,470) |
| | | | | |
| 32,001 | | | | 1,016,558 |
| 796 | 25,670 | 72,738 | 704 | 305,939 |
| (32,795) | | (30,724) | (134) | (1,203,023) |
| | | | (38) | (38) |
| 2 | 25,670 | 42,014 | 532 | 119,436 |
| 0 | 59,663 | 250 | 460 | 121,472 |
| | 437,706 | 59,422 | 21,703 | 3,144,034 |
| | | | 5 | (164) |
| 0 | 437,706 | 59,422 | 21,708 | 3,143,870 |
| $ 0 | $ 497,369 | $ 59,672 | $ 22,168 | $ 3,265,342 |

STATE OF TEXAS

# Combining Statement of Cash Flows – Nonmajor Enterprise Funds

For the Fiscal Year Ended August 31, 2007 (Amounts in Thousands)

| | Texas Workforce Commission Unemployment Trust Fund Accounts | Texas Department of Housing and Community Affairs | Texas Lottery Commission | Veterans Land Board Loan Program Funds |
|---|---|---|---|---|
| **RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES** | | | | |
| Operating Income (Loss) | $ 635,361 | $ (12,252) | $1,083,730 | $ 11,723 |
| Adjustments to Reconcile Operating Income (Loss) to Net Cash Provided by Operating Activities: | | | | |
| Depreciation and Amortization | | 979 | 234 | 3,221 |
| Bad Debt Expense | | 2,242 | 291 | |
| Operating Income (Loss) and Cash Flow Categories Classification Differences | | 55,968 | | 131,475 |
| Changes in Assets and Liabilities: | | | | |
| (Increase) Decrease in Receivables | 14,021 | (1,739) | (80,663) | (34,070) |
| (Increase) Decrease in Due From Other Funds | | | | |
| (Increase) Decrease in Inventories | | | (836) | 94 |
| (Increase) Decrease in Loans and Contracts | | (102,558) | | (169,013) |
| (Increase) Decrease in Other Assets | | (136) | | (28,936) |
| (Increase) Decrease in Prepaid Expenses | | | | |
| Increase (Decrease) in Payables | (331,862) | 6,818 | 60,804 | 694 |
| Increase (Decrease) in Due To Other Funds | | | | |
| Increase (Decrease) in Deferred Revenue | 9,748 | 7,120 | | |
| Increase (Decrease) in Compensated Absence Liability | | | | |
| Increase (Decrease) in Benefits Payable | | | | |
| Increase (Decrease) in Other Liabilities | | 24,804 | 1,556 | 31,047 |
| Total Adjustments | (308,093) | (6,502) | (18,614) | (65,488) |
| Net Cash Provided by Operating Activities | $ 327,268 | $ (18,754) | $1,065,116 | $ (53,765) |
| **NONCASH TRANSACTIONS** | | | | |
| Net Change in Fair Value of Investments | $ 0 | $ 7,272 | $ (13,828) | $ (8,897) |

| Texas Department of Criminal Justice Institutional Division | Teacher Retirement System | Texas Prepaid Higher Education Tuition Board | Other Nonmajor Enterprise Funds | Totals |
|---|---|---|---|---|
| $ 7,502 | $ 30,034 | $ (263,403) | $ 4,477 | $1,497,172 |
| | | | | |
| 121 | | 22 | 499 | 5,076 |
| | | | | 2,533 |
| | | 241 | 65 | 187,749 |
| (1) | (5,820) | 57,618 | (1,175) | (51,829) |
| | | | 16 | 16 |
| (676) | | | 55 | (1,363) |
| | | | 548 | (271,023) |
| | | | | (29,072) |
| | | | 57 | 57 |
| (1,290) | 9,733 | 129 | 596 | (254,378) |
| | | (34) | (50) | (84) |
| | | | 127 | 16,995 |
| | | 11 | 11 | 22 |
| | 46 | 163,652 | | 163,698 |
| | | | (17) | 57,390 |
| (1,846) | 3,959 | 221,639 | 732 | (174,213) |
| $ 5,656 | $ 33,993 | $ (41,764) | $ 5,209 | $1,322,959 |
| | | | | |
| $ 0 | $ 0 | $ (152,711) | $ 0 | $ (168,164) |

# Colleges and Universities – Major Enterprise Fund

There are six university system offices and five independent universities in Texas' primary government presented in a single-column as a major fund on the basic financial statements. Schedules have been prepared to report the breakdown of the following universities.

**The University of Texas System**
**Texas A&M University System**
**Texas Tech University System**
**The University of Houston System**
**Texas State University System**
**The University of North Texas System**
**Texas Woman's University**
**Stephen F. Austin State University**
**Texas Southern University**
**Midwestern State University**
**Texas State Technical College**

STATE OF TEXAS

# Schedule of Net Assets
# Colleges and Universities – Major Enterprise Fund

August 31, 2007 (Amounts in Thousands)

| | University of Texas System | Texas A & M University System | Texas Tech University System | University of Houston System | Texas State University System |
|---|---|---|---|---|---|
| **ASSETS** | | | | | |
| Current Assets: | | | | | |
| Cash and Cash Equivalents | $ 1,539,821 | $ 263,921 | $ 255,359 | $ 145,969 | $ 444,955 |
| Short-Term Investments | | 193,813 | | 14,887 | |
| Securities Lending Collateral | 1,566,423 | 286,652 | | | |
| Restricted: | | | | | |
| Cash and Cash Equivalents | 341,052 | (4,754) | 125,744 | 23,443 | 26,713 |
| Short-Term Investments | | 151,452 | | | 198 |
| Loans and Contracts | | | | | |
| Receivables: | | | | | |
| Federal | 195,235 | 84,052 | 8,203 | 30,228 | 14,316 |
| Other Intergovernmental | 31,507 | 11,727 | | | |
| Accounts | 194,126 | 14,006 | 1,346 | 14,272 | 58,208 |
| Interest and Dividends | 61,798 | 9,424 | 2,387 | 1,789 | 447 |
| Gifts | 45,891 | 11,888 | 21,808 | 17,379 | 2,558 |
| Investment Trades | 760,704 | 59,056 | | | |
| Other | 1,037,145 | 69,257 | 39,388 | 1,145 | 2,167 |
| Due From Other Funds | 71,023 | 96,707 | 59,153 | 57,443 | 64,032 |
| Due From Component Units | | | 9 | | |
| Interfund Receivable | | 23,340 | | | |
| Inventories | 66,890 | 25,436 | 3,573 | 3,032 | 4,337 |
| Prepaid Items | | 848 | 19,074 | 23,850 | 23,760 |
| Loans and Contracts | 43,297 | 22,040 | 1,727 | 9,255 | 5,453 |
| Other Current Assets | 137,600 | 29,551 | 211 | | 22,874 |
| Total Current Assets | 6,092,512 | 1,348,416 | 537,982 | 342,692 | 670,018 |
| Noncurrent Assets: | | | | | |
| Restricted: | | | | | |
| Cash and Cash Equivalents | 764 | | 24,092 | 39,071 | 27,463 |
| Short-Term Investments | | | | | |
| Investments | 22,598,520 | 716,677 | 175,320 | | 75,067 |
| Receivables | | | | | 4,969 |
| Loans and Contracts | 88,078 | 5,203 | | 9,917 | 1,077 |
| Other | | | | | 5,953 |
| Loans and Contracts | | 27,218 | 3,486 | | 1,150 |
| Investments | 3,266,770 | 1,456,422 | 768,667 | 642,805 | 119,885 |
| Interfund Receivable | | 382,630 | | | |
| Gifts Receivable | 105,465 | 53,594 | 40,036 | | |
| Capital Assets: | | | | | |
| Nondepreciable | 1,590,879 | 494,735 | 190,612 | 85,746 | 140,994 |
| Depreciable | 11,979,152 | 3,596,283 | 1,439,776 | 1,178,223 | 1,587,198 |
| Accumulated Depreciation | (5,227,367) | (2,125,393) | (704,527) | (703,169) | (809,226) |
| Assets Held in Trust | | 362 | | | |
| Other Noncurrent Assets | 32,560 | 1,104 | | | |
| Total Noncurrent Assets | 34,434,821 | 4,608,835 | 1,937,462 | 1,252,593 | 1,154,530 |
| Total Assets | 40,527,333 | 5,957,251 | 2,475,444 | 1,595,285 | 1,824,548 |

| University of North Texas System | Texas Woman's University | Stephen F. Austin State University | Texas Southern University | Midwestern State University | Texas State Technical College | Totals |
|---|---|---|---|---|---|---|
| $ 197,518 | $ 12,926 | $ 54,258 | $ 23,400 | $ 3,985 | $ 22,416 | $ 2,964,528 |
| 400 | 31,609 | 83 | | 18,581 | 9,035 | 268,408 |
| | | | | | | 1,853,075 |
| 13,468 | 4,352 | 13,071 | 270 | (1,249) | 3,612 | 545,722 |
| 4,724 | 29,923 | | 17,886 | 1,682 | 8,174 | 214,039 |
| | | | | 17 | | 17 |
| 15,595 | 4,215 | 1,889 | 5,198 | 115 | 1,029 | 360,075 |
| 130 | | 911 | 4,048 | | | 48,323 |
| 40,358 | 7,316 | 7,622 | 14,952 | 4,346 | 13,993 | 370,545 |
| 1,935 | 800 | 167 | | 154 | 93 | 78,994 |
| 1,140 | | 450 | | 2,429 | | 103,543 |
| | | | | | | 819,760 |
| | 6,530 | 1,848 | 2,525 | 900 | 500 | 1,161,405 |
| 46,950 | 9,690 | 5,875 | 9,037 | 2,472 | 8,782 | 431,164 |
| | | | | | | 9 |
| | | | | | | 23,340 |
| 2,735 | 845 | 499 | 546 | 307 | 2,490 | 110,690 |
| | 1,084 | 13,540 | | 4,443 | | 86,599 |
| 7,457 | 5,793 | 2,842 | | | | 97,864 |
| 13,610 | | | 11,644 | | | 215,490 |
| 346,020 | 115,083 | 103,055 | 89,506 | 38,182 | 70,124 | 9,753,590 |
| | | | | | | |
| | | 310 | | | 15 | 91,715 |
| | | | | 23,384 | 320 | 23,704 |
| 66,214 | 73,239 | 9,753 | | 269 | | 23,715,059 |
| | | | 710 | | | 5,679 |
| 6,023 | | 4,890 | 2,216 | 108 | | 117,512 |
| | | | | 642 | | 6,595 |
| | | 778 | | | | 32,632 |
| 136,125 | | 22,959 | 28,766 | 8,159 | | 6,450,558 |
| | | | | | | 382,630 |
| 1,152 | | | | 954 | | 201,201 |
| 91,510 | 4,682 | 56,376 | 31,177 | 8,459 | 17,342 | 2,712,512 |
| 795,266 | 290,407 | 284,320 | 342,175 | 145,852 | 149,734 | 21,788,386 |
| (390,200) | (123,873) | (172,690) | (183,709) | (71,888) | (100,352) | (10,612,394) |
| | | | | | | 362 |
| 271 | | | | | | 33,935 |
| 706,361 | 244,455 | 206,696 | 221,335 | 115,939 | 67,059 | 44,950,086 |
| 1,052,381 | 359,538 | 309,751 | 310,841 | 154,121 | 137,183 | 54,703,676 |

*Concluded on the following page*

STATE OF TEXAS

# Schedule of Net Assets
# Colleges and Universities – Major Enterprise Fund (concluded)

August 31, 2007 (Amounts in Thousands)

| | University of Texas System | Texas A & M University System | Texas Tech University System | University of Houston System | Texas State University System |
|---|---|---|---|---|---|
| **LIABILITIES** | | | | | |
| Current Liabilities: | | | | | |
| Payables: | | | | | |
| Accounts | $ 1,027,062 | $ 84,718 | $ 36,993 | $ 36,948 | $ 19,891 |
| Payroll | | 93,994 | 48,191 | 30,936 | 30,194 |
| Other Intergovernmental | 11 | | | | 10,780 |
| Federal | 48,732 | | | 413 | |
| Investment Trades | 1,790,172 | 64,960 | | | |
| Interest | | | | | |
| Due To Other Funds | 9,689 | | | 6 | |
| Interfund Payable | 23,340 | | | | |
| Deferred Revenue | 884,905 | 322,013 | 110,748 | 122,526 | 218,475 |
| Obligations/Securities Lending | 1,566,423 | 286,651 | | | |
| Claims and Judgments | 79,468 | 12,772 | 2,264 | 255 | |
| Capital Lease Obligations | 1,022 | 210 | | | 144 |
| Employees' Compensable Leave | 243,535 | 5,395 | 7,308 | 9,203 | 8,602 |
| Notes and Loans Payable | 824,864 | 9,780 | 36,599 | 27 | |
| General Obligation Bonds Payable | | | | | |
| Revenue Bonds Payable | 179,189 | 83,191 | 18,740 | 19,598 | 27,288 |
| Funds Held for Others | 16,261 | 22,707 | 12,830 | 5,982 | 13,293 |
| Other Current Liabilities | 348,995 | 31,038 | 30,337 | 2,587 | 4,901 |
| Total Current Liabilities | 7,043,668 | 1,017,429 | 304,010 | 228,481 | 333,568 |
| Noncurrent Liabilities: | | | | | |
| Interfund Payable | 388,925 | 8,492 | 937 | | |
| Claims and Judgments | 38,879 | 9,534 | 20,377 | 16 | |
| Capital Lease Obligations | 1,632 | 1,302 | | | 421 |
| Employees' Compensable Leave | 141,543 | 82,495 | 26,350 | 10,666 | 9,620 |
| Notes and Loans Payable | 32,954 | 150,694 | | | |
| General Obligation Bonds Payable | | | | | |
| Revenue Bonds Payable | 3,745,737 | 1,081,002 | 389,045 | 292,935 | 490,802 |
| Assets Held for Others | 762,449 | 362 | | | |
| Other Noncurrent Liabilities | 22,058 | 94,026 | 517 | | 2,450 |
| Total Noncurrent Liabilities | 5,134,177 | 1,427,907 | 437,226 | 303,617 | 503,293 |
| Total Liabilities | 12,177,845 | 2,445,336 | 741,236 | 532,098 | 836,861 |
| **NET ASSETS** | | | | | |
| Invested in Capital Assets, Net of Related Debt | 4,083,126 | 729,190 | 499,576 | 262,723 | 400,384 |
| Restricted for: | | | | | |
| Education | 1,571,903 | 317,086 | 153,552 | | 48,927 |
| Debt Retirement | 8,394 | 1,099 | 13,120 | 29 | 3,438 |
| Capital Projects | 46,302 | 2,384 | 34,177 | 594 | 3,743 |
| Funds Held as Permanent Investments: | | | | | |
| Nonexpendable | 8,968,901 | 495,999 | 539,695 | 340,736 | 187,717 |
| Expendable | 9,577,269 | 82,169 | | 86,731 | 13,551 |
| Unrestricted | 4,093,593 | 1,883,988 | 494,088 | 372,374 | 329,927 |
| Total Net Assets | $28,349,488 | $ 3,511,915 | $ 1,734,208 | $ 1,063,187 | $ 987,687 |

| University of North Texas System | Texas Woman's University | Stephen F. Austin State University | Texas Southern University | Midwestern State University | Texas State Technical College | Totals |
|---|---|---|---|---|---|---|
| $ 18,472 | $ 11,579 | $ 4,216 | $ 7,815 | $ 1,428 | $ 5,071 | $ 1,254,193 |
| 32,460 | | 5,610 | 5,304 | | 5,906 | 252,595 |
| | | 1,389 | 32 | | | 12,212 |
| | | | | | 223 | 49,368 |
| | | | | | | 1,855,132 |
| | | 1,997 | | | 77 | 2,074 |
| 16 | 329 | | | | | 10,040 |
| | | | | | | 23,340 |
| 111,564 | 31,149 | 46,914 | 34,544 | 17,726 | 11,675 | 1,912,239 |
| | | | | | | 1,853,074 |
| | | | | | | 94,759 |
| 180 | 171 | 74 | | | 634 | 2,435 |
| 1,115 | 1,942 | 324 | 1,725 | 111 | 477 | 279,737 |
| | | | 288 | | | 871,558 |
| | | | 4,135 | 1,180 | 1,390 | 6,705 |
| 10,610 | 3,495 | 4,525 | 5,785 | 1,395 | 445 | 354,261 |
| 15,420 | | 10,156 | | 156 | 5,177 | 101,982 |
| 4,126 | 4,793 | 2,472 | 9,463 | 3,186 | 585 | 442,483 |
| 193,963 | 53,458 | 77,677 | 69,091 | 25,182 | 31,660 | 9,378,187 |
| | | | | | | |
| | | | | | 34 | 398,388 |
| | | | | | 233 | 69,039 |
| 441 | 2,173 | 38 | | | 4,692 | 10,699 |
| 13,713 | 1,226 | 2,605 | 1,528 | 1,123 | 4,662 | 295,531 |
| 20,783 | | | 891 | | | 205,322 |
| | | | 32,178 | 7,985 | 11,440 | 51,603 |
| 258,015 | 43,528 | 115,630 | 99,735 | 47,065 | 8,275 | 6,571,769 |
| 2,261 | 167 | | | | | 765,239 |
| 14 | | 709 | 2,726 | 220 | 10 | 122,730 |
| 295,227 | 47,094 | 118,982 | 137,058 | 56,393 | 29,346 | 8,490,320 |
| 489,190 | 100,552 | 196,659 | 206,149 | 81,575 | 61,006 | 17,868,507 |
| | | | | | | |
| 206,759 | 121,961 | 48,671 | 47,237 | 47,105 | 44,544 | 6,491,276 |
| | | | | | | |
| 37,731 | 1,953 | 13,768 | 722 | | 1,434 | 2,147,076 |
| 3,724 | | | 110 | | | 29,914 |
| 5,384 | | 2,218 | 13,380 | 4,001 | 1,577 | 113,760 |
| | | | | | | |
| 17,259 | 7,300 | 6,298 | 29,476 | 3,550 | 335 | 10,597,266 |
| 5,031 | 58,730 | 3,465 | | 3,129 | | 9,830,075 |
| 287,303 | 69,042 | 38,672 | 13,767 | 14,761 | 28,287 | 7,625,802 |
| | | | | | | |
| $ 563,191 | $ 258,986 | $ 113,092 | $ 104,692 | $ 72,546 | $ 76,177 | $ 36,835,169 |

STATE OF TEXAS

# Schedule of Revenues, Expenses and Changes in Fund Net Assets
# Colleges and Universities – Major Enterprise Fund

For the Fiscal Year Ended August 31, 2007 (Amounts in Thousands)

| | University of Texas System | Texas A & M University System | Texas Tech University System | University of Houston System | Texas State University System |
|---|---|---|---|---|---|
| **OPERATING REVENUES** | | | | | |
| Tuition Revenue | $ | $ | $ 25,838 | $ 335,798 | $ |
| Tuition Revenue - Pledged | 1,210,079 | 626,918 | 197,849 | | 347,454 |
| Discounts and Allowances | (241,783) | (124,959) | (23,872) | (50,514) | (51,866) |
| Hospital Revenue - Pledged | 5,737,392 | | | | |
| Discounts and Allowances | (2,973,832) | | | | |
| Professional Fees | 2,925,160 | | 212,943 | | |
| Professional Fees - Pledged | 4,500 | 11,978 | | | |
| Discounts and Allowances | (1,917,248) | | | | |
| Auxiliary Enterprises | | | | 42,996 | 100,048 |
| Auxiliary Enterprises - Pledged | 336,169 | 215,049 | 70,231 | | 4,252 |
| Discounts and Allowances | (8,747) | | | | (7,076) |
| Other Sales of Goods and Services | | | 3,552 | 20,894 | 12,283 |
| Other Sales of Goods and Services - Pledged | 308,817 | 130,938 | 10,119 | | |
| Discounts and Allowances | (344) | (16,080) | | | |
| Interest and Investment Income | | 1,044 | | | 71 |
| Interest and Investment Income - Pledged | | | | | 770 |
| Federal Revenue | 1,325,130 | 449,784 | 53,976 | 91,697 | 80,641 |
| State Grant Revenue | 36,736 | 50,653 | 7,299 | 9,341 | 6,687 |
| Other Operating Grant Revenue | 267,316 | 10,800 | 110,912 | 14,779 | 9,524 |
| Other Operating Grant Revenue - Pledged | 398,630 | 121,136 | 3,875 | | |
| Other Revenues | 5,992 | 629 | | 800 | 13,686 |
| Other Revenues - Pledged | 139,397 | 37,695 | | | |
| Total Operating Revenues | 7,553,364 | 1,515,585 | 672,722 | 465,791 | 516,474 |
| **OPERATING EXPENSES** | | | | | |
| Cost of Goods Sold | 100,530 | 18,948 | | 2,891 | 6,808 |
| Salaries and Wages | 4,935,161 | 1,245,730 | 523,147 | 411,226 | 385,225 |
| Payroll Related Costs | 1,168,906 | 284,822 | 117,701 | 86,402 | 87,089 |
| Professional Fees and Services | 340,931 | 182,184 | 62,944 | 39,533 | 38,640 |
| Travel | 114,830 | 63,567 | 11,726 | 12,924 | 12,785 |
| Materials and Supplies | 1,002,146 | 184,739 | 83,461 | 33,916 | 76,034 |
| Communication and Utilities | 291,147 | 122,113 | 39,528 | 42,192 | 51,528 |
| Repairs and Maintenance | 152,646 | 62,061 | 23,139 | 9,457 | 16,731 |
| Rentals and Leases | 99,535 | 41,531 | 9,636 | 13,407 | 10,570 |
| Printing and Reproduction | 20,872 | 13,815 | 6,930 | 4,652 | 4,976 |
| Depreciation and Amortization | 626,913 | 128,998 | 51,134 | 40,973 | 48,400 |
| Bad Debt Expense | 2,315 | | | | 189 |
| Interest Expense | | 157 | | 2,456 | 30 |
| Scholarships | 260,797 | 117,777 | 36,361 | 50,464 | 59,596 |
| Claims and Judgments | 10,104 | | 14 | 914 | 39 |
| Other Expenses | 796,967 | 168,022 | 47,948 | 18,353 | 32,606 |
| Total Operating Expenses | 9,923,800 | 2,634,464 | 1,013,669 | 769,760 | 831,246 |
| Operating (Loss) | (2,370,436) | (1,118,879) | (340,947) | (303,969) | (314,772) |

| University of North Texas System | Texas Woman's University | Stephen F. Austin State University | Texas Southern University | Midwestern State University | Texas State Technical College | Totals |
|---|---|---|---|---|---|---|
| $ 77,370 | $ 59,354 | $ 3,294 | $ | $ | $ 2,533 | $ 504,187 |
| 131,787 | 278 | 57,443 | 60,107 | 21,421 | 23,811 | 2,677,147 |
| (25,523) | (5,626) | (12,311) | (16,543) | | (9,280) | (562,277) |
| | | | | | | 5,737,392 |
| | | | | | | (2,973,832) |
| 74,249 | | | | | | 3,212,352 |
| | | | | | | 16,478 |
| (67) | | | | | | (1,917,315) |
| 1,220 | 7,952 | 1,411 | | | 1,043 | 154,670 |
| 35,735 | 8,671 | 28,323 | 8,805 | 4,867 | 11,979 | 724,081 |
| (104) | | (5,074) | (2,149) | | (2,600) | (25,750) |
| 22,664 | | 1,230 | | | | 60,623 |
| | | 3,755 | 45 | 1,335 | 4,438 | 459,447 |
| | | | | | | (16,424) |
| | | | | | | 1,115 |
| | | | | | 829 | 1,599 |
| 55,904 | 10,756 | 15,437 | 37,031 | 5,391 | 19,717 | 2,145,464 |
| 1,200 | 498 | 755 | 1,206 | | 1,135 | 115,510 |
| 8,958 | | 1,017 | 11 | 27 | | 423,344 |
| | 765 | | 3,028 | | 248 | 527,682 |
| 100 | 985 | | | | | 22,192 |
| | | 10 | 4,721 | 559 | 7 | 182,389 |
| 383,493 | 83,633 | 95,290 | 96,262 | 33,600 | 53,860 | 11,470,074 |
| | | | | | | |
| 770 | 297 | 6,571 | | | 3,448 | 140,263 |
| 276,969 | 71,670 | 70,782 | 70,447 | 31,873 | 63,545 | 8,085,775 |
| 57,306 | 15,479 | 17,486 | 16,734 | 7,813 | 18,659 | 1,878,397 |
| 21,267 | 1,228 | 1,478 | 14,887 | 2,532 | 1,391 | 707,015 |
| 6,720 | 1,709 | 2,027 | 1,811 | 1,307 | 1,177 | 230,583 |
| 42,356 | 10,559 | 17,184 | 7,286 | 5,399 | 11,154 | 1,474,234 |
| 15,249 | 5,912 | 11,475 | 5,353 | 3,861 | 7,254 | 595,612 |
| 11,528 | 3,414 | 3,114 | 2,549 | 1,537 | 2,721 | 288,897 |
| 6,221 | 1,031 | 1,682 | 2,457 | 465 | 1,255 | 187,790 |
| 3,843 | 304 | 663 | 343 | 455 | 131 | 56,984 |
| 26,870 | 9,558 | 7,716 | 11,360 | 5,980 | 5,312 | 963,214 |
| 3,699 | 815 | 213 | 800 | 115 | | 8,146 |
| 9 | | 1 | | 1 | 2 | 2,656 |
| 33,471 | 18,471 | 13,183 | 15,503 | 6,082 | 8,420 | 620,125 |
| 52 | | | | | 61 | 11,184 |
| 30,618 | 5,403 | 3,977 | 74 | 15 | 8,792 | 1,112,775 |
| 536,948 | 145,850 | 157,552 | 149,604 | 67,435 | 133,322 | 16,363,650 |
| (153,455) | (62,217) | (62,262) | (53,342) | (33,835) | (79,462) | (4,893,576) |

*Concluded on the following page*

STATE OF TEXAS

# Schedule of Revenues, Expenses and Changes in Fund Net Assets
# Colleges and Universities – Major Enterprise Fund (concluded)

For the Fiscal Year Ended August 31, 2007 (Amounts in Thousands)

| | University of Texas System | Texas A & M University System | Texas Tech University System | University of Houston System | Texas State University System |
|---|---|---|---|---|---|
| **NONOPERATING REVENUES (EXPENSES)** | | | | | |
| Federal Revenue | $ | $ 35,836 | $ 553 | $ | $ |
| Gifts | 265,115 | | 114,917 | 43,160 | 28,471 |
| Gifts - Pledged | 19,383 | 72,145 | 13,399 | | |
| Land Income | | 5,179 | | | |
| Interest and Investment Income | 3,211,311 | | 98,903 | 81,326 | 28,611 |
| Interest and Investment Income - Pledged | 406,928 | 273,527 | 25,208 | | 2,812 |
| Investing Activities Expense | (155,778) | (11,818) | | | (395) |
| Interest Expense | (158,097) | (63,125) | (15,166) | (13,848) | (23,534) |
| Borrower Rebates and Agent Fees | | (58) | | | |
| Gain on Sale of Capital Assets | | 149 | | 6 | 13,206 |
| Settlement of Claims | | | | | |
| Claims and Judgments | | (947) | | | (224) |
| Other Revenues | 180,955 | 95 | 2,448 | (12,756) | 5,118 |
| Other Revenues - Pledged | 9,435 | 28,723 | 16,737 | | |
| Other Expenses | (507) | (37,628) | | | (333) |
| Total Nonoperating Revenues (Expenses) | 3,778,745 | 302,078 | 256,999 | 97,888 | 53,732 |
| Income (Loss) Before Capital Contributions, Endowments and Transfers | 1,408,309 | (816,801) | (83,948) | (206,081) | (261,040) |
| **CAPITAL CONTRIBUTIONS, ENDOWMENTS AND TRANSFERS** | | | | | |
| Capital Contributions - Federal | 73,823 | | | | 399 |
| Capital Contributions (Distributions) - Other | 104,181 | 8,355 | 1,371 | 160 | (750) |
| Contributions to Permanent and Term Endowments | 163,901 | 5,567 | 947 | 9,279 | 584 |
| Transfer In | 1,981,182 | 1,130,262 | 328,718 | 303,246 | 330,696 |
| Transfer Out | (158,854) | (32,528) | (7,411) | (5,183) | (3,312) |
| Total Capital Contributions, Endowments and Transfers | 2,164,233 | 1,111,656 | 323,625 | 307,502 | 327,617 |
| Change in Net Assets | 3,572,542 | 294,855 | 239,677 | 101,421 | 66,577 |
| Net Assets, September 1, 2006 | 24,776,946 | 3,221,468 | 1,494,531 | 961,766 | 921,126 |
| Restatements | | (4,408) | | | (16) |
| Net Assets, September 1, 2006, as Restated | 24,776,946 | 3,217,060 | 1,494,531 | 961,766 | 921,110 |
| Net Assets, August 31, 2007 | $28,349,488 | $ 3,511,915 | $ 1,734,208 | $ 1,063,187 | $ 987,687 |

| University of North Texas System | Texas Woman's University | Stephen F. Austin State University | Texas Southern University | Midwestern State University | Texas State Technical College | Totals |
|---|---|---|---|---|---|---|
| $ | $ | $ | $ | $ | $ | $ 36,389 |
| 5,550 | | 2,247 | | 3,019 | 56 | 462,535 |
| | 8,345 | | 70 | | | 113,342 |
| | | | | | | 5,179 |
| 24,477 | 6,728 | 942 | 1,685 | | | 3,453,983 |
| | 781 | 2,492 | 2,548 | 1,544 | 1,501 | 717,341 |
| | | (17) | (170) | | | (168,178) |
| (12,609) | (2,382) | (3,487) | (6,658) | (1,306) | (1,182) | (301,394) |
| | | | | | | (58) |
| | | | | | | 13,361 |
| | | 258 | | | | 258 |
| (568) | | | | | | (1,739) |
| 1,487 | | | 580 | 427 | 140 | 178,494 |
| | 5,697 | | | | | 60,592 |
| (48) | 50 | (8) | (1,890) | (3) | (1,272) | (41,639) |
| 18,289 | 19,219 | 2,427 | (3,835) | 3,681 | (757) | 4,528,466 |
| | | | | | | |
| (135,166) | (42,998) | (59,835) | (57,177) | (30,154) | (80,219) | (365,110) |
| | | | | | | |
| | | | | | | 74,222 |
| 1,893 | | 1,796 | | 4,359 | 1,166 | 122,531 |
| 140 | | 835 | 2,671 | 269 | | 184,193 |
| 215,140 | 73,650 | 58,535 | 75,308 | 26,168 | 84,712 | 4,607,617 |
| (3,435) | (1,832) | (855) | (58) | (696) | (2,045) | (216,209) |
| 213,738 | 71,818 | 60,311 | 77,921 | 30,100 | 83,833 | 4,772,354 |
| 78,572 | 28,820 | 476 | 20,744 | (54) | 3,614 | 4,407,244 |
| 484,997 | 229,536 | 112,616 | 85,789 | 72,600 | 72,605 | 32,433,980 |
| (378) | 630 | | (1,841) | | (42) | (6,055) |
| 484,619 | 230,166 | 112,616 | 83,948 | 72,600 | 72,563 | 32,427,925 |
| $ 563,191 | $ 258,986 | $ 113,092 | $ 104,692 | $ 72,546 | $ 76,177 | $ 36,835,169 |

STATE OF TEXAS

# Schedule of Cash Flows
# Colleges and Universities – Major Enterprise Fund

For the Fiscal Year Ended August 31, 2007 (Amounts in Thousands)

| | University of Texas System | Texas A & M University System | Texas Tech University System | University of Houston System | Texas State University System |
|---|---|---|---|---|---|
| **CASH FLOWS FROM OPERATING ACTIVITIES** | | | | | |
| Receipts from Customers | $ 3,719,289 | $ 132,231 | $ 217,125 | $ 42,972 | $ 21,386 |
| Proceeds from Tuition and Fees | 979,653 | 545,846 | 209,346 | 290,527 | 308,623 |
| Proceeds from Research Grants and Contracts | 2,311,440 | 805,697 | 196,542 | 98,735 | 44,030 |
| Proceeds from Gifts | | | | | 3,941 |
| Proceeds from Loan Programs | 95,057 | 13,319 | 1,166 | 10,136 | 12,536 |
| Proceeds from Auxiliaries | 335,259 | 197,904 | 71,049 | 41,479 | 89,552 |
| Proceeds from Other Revenues | 415,143 | 36,907 | 11,970 | 22,474 | 102,619 |
| Payments to Suppliers for Goods and Services | (2,991,673) | (939,445) | (257,111) | (156,697) | (243,951) |
| Payments to Employees | (6,143,580) | (1,541,511) | (515,655) | (502,159) | (477,785) |
| Payments for Loans Provided | (100,238) | (21,161) | (1,397) | (10,045) | (9,582) |
| Payments for Other Expenses | (75) | (155,043) | (187,780) | (91,583) | (82,213) |
| Net Cash Provided by Operating Activities | (1,379,725) | (925,256) | (254,745) | (254,161) | (230,844) |
| **CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES** | | | | | |
| Proceeds from State Appropriations | 1,767,784 | 867,368 | 281,984 | 253,313 | 287,959 |
| Proceeds from Gifts | 299,805 | 78,501 | 128,410 | 29,538 | 29,994 |
| Proceeds from Endowments | 383,126 | 5,555 | | 29,370 | 11,363 |
| Proceeds from Transfers from Other Funds | | 154,297 | | 21,392 | 156 |
| Proceeds from Grant Receipts | | 34,896 | | | 501 |
| Proceeds from Loan Programs | | | 35,291 | | 32 |
| Proceeds from Other Financing Activities | 21,104 | 21,868 | 17,407 | | 5,199 |
| Payments of Principal on Debt Issuance | | | | | (5,645) |
| Payments of Interest | | | | | (136) |
| Payments of Other Costs on Debt Issuance | | | | (61) | |
| Payments for Transfers to Other Funds | (331,737) | (4,060) | (5,798) | (52,437) | (16,573) |
| Payments for Grant Disbursements | | | (35,135) | | (29) |
| Payments for Advances to Other Funds | | | | | (731) |
| Payments for Other Uses | (2,728) | (30,881) | | (21,771) | (12,297) |
| Net Cash Provided by Noncapital Financing Activities | 2,137,354 | 1,127,544 | 422,159 | 259,344 | 299,793 |
| **CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES** | | | | | |
| Proceeds from Sale of Capital Assets | 5,250 | 1,680 | | 1,192 | 13,278 |
| Proceeds from Debt Issuance | 2,166,694 | 77,659 | 25,281 | | 40,712 |
| Proceeds from State Grants and Contracts | | 18,051 | | | |
| Proceeds from Federal Grants and Contracts | | | | | 399 |
| Proceeds from Gifts | | | 1,364 | | 1,851 |
| Proceeds from Other Financing Activities | | | | 2,282 | 2,758 |
| Proceeds from Capital Contributions | 139,891 | | 29,786 | 41,522 | 6,511 |
| Proceeds of Advances from Other Funds | | | | | 45,000 |
| Payments for Additions to Capital Assets | (1,333,045) | (262,286) | (95,194) | (34,942) | (50,583) |
| Payments of Principal on Debt Issuance | (1,588,196) | (85,135) | (23,358) | (19,295) | (49,678) |
| Payments for Capital Leases | | (21) | | | (23,078) |
| Payments of Interest on Debt Issuance | (164,396) | (63,189) | (21,216) | (13,831) | (24,840) |
| Payments of Other Costs on Debt Issuance | (59,781) | (472) | (45) | (1,874) | (1,445) |
| Net Cash Provided by Capital and Related Financing Activities | (833,583) | (313,713) | (83,382) | (24,946) | (39,115) |
| **CASH FLOWS FROM INVESTING ACTIVITIES** | | | | | |
| Proceeds from Sale of Investments | 28,102,688 | 4,118,072 | 90,570 | | 14,626 |
| Proceeds from Interest and Investment Income | 948,800 | 82,608 | 112,055 | 79,057 | 29,368 |
| Payments to Acquire Investments | (28,866,860) | (4,069,411) | (237,997) | (35,990) | (10,486) |
| Net Cash Provided by Investing Activities | 184,628 | 131,269 | (35,372) | 43,067 | 33,508 |
| Net Increase (Decrease) in Cash and Cash Equivalents | 108,674 | 19,844 | 48,660 | 23,304 | 63,342 |
| Cash and Cash Equivalents, September 1, 2006 | 1,772,963 | 239,323 | 356,535 | 185,179 | 435,789 |
| Restatements | | | | | |
| Cash and Cash Equivalents, September 1, 2006, as Restated | 1,772,963 | 239,323 | 356,535 | 185,179 | 435,789 |
| Cash and Cash Equivalents, August 31, 2007 | $ 1,881,637 | $ 259,167 | $ 405,195 | $ 208,483 | $ 499,131 |

| University of North Texas System | Texas Woman's University | Stephen F. Austin State University | Texas Southern University | Midwestern State University | Texas State Technical College | Totals |
|---|---|---|---|---|---|---|
| $ 97,358 | $ 54,006 | $ 4,987 | $ | $ 21,955 | $ 14,848 | $ 4,326,157 |
| 184,775 | | 51,281 | 42,668 | 7,103 | 16,796 | 2,636,618 |
| 75,370 | 15,359 | 23,982 | 41,639 | | 28,253 | 3,641,047 |
| | | | | | | 3,941 |
| 7,115 | | | 67,874 | 13 | | 207,216 |
| 36,039 | | 26,258 | 2,389 | 4,976 | | 804,905 |
| 623 | 17,609 | 642 | 5,184 | 1,894 | 1,130 | 616,195 |
| (124,035) | (24,454) | (50,139) | (37,370) | (16,009) | (43,091) | (4,883,975) |
| (343,097) | (88,831) | (88,932) | (86,856) | (40,194) | (83,390) | (9,911,990) |
| (7,364) | (18,440) | (13,413) | (65,306) | (17) | | (246,963) |
| (46,095) | (5,398) | (59) | (12,925) | (5,912) | | (587,083) |
| (119,311) | (50,149) | (45,393) | (42,703) | (26,191) | (65,454) | (3,393,932) |
| | | | | | | |
| | | | | | | |
| 189,754 | 72,042 | 54,628 | 53,108 | 22,375 | 78,213 | 3,928,528 |
| 7,309 | | 2,247 | | 3,019 | 56 | 578,879 |
| 140 | | | | 222 | | 429,776 |
| | | | 35 | | | 175,880 |
| | | | | | | 35,397 |
| | | | | | | 35,323 |
| 5,495 | 14,042 | 261 | | | 140 | 85,516 |
| (208) | | | | | | (5,853) |
| (311) | | | | | | (447) |
| (11) | | | | | | (72) |
| (2,720) | | (540) | | (698) | | (414,563) |
| | | | | | | (35,164) |
| | | (375) | | | | (1,106) |
| (1,350) | (1,832) | (11) | | (4) | (1,038) | (71,912) |
| | | | | | | |
| 198,098 | 84,252 | 56,210 | 53,143 | 24,914 | 77,371 | 4,740,182 |
| | | | | | | |
| | | | | | | |
| | | | | | | 21,400 |
| 73,872 | | | | 22,648 | | 2,406,866 |
| | | | | | 150 | 18,201 |
| | | 39 | | | | 438 |
| | | | | 1,495 | | 4,710 |
| | | | 7,438 | 31 | | 12,509 |
| 19,376 | | 121 | | 2,290 | | 239,497 |
| | | 4,684 | | | | 49,684 |
| (81,855) | (13,442) | (27,900) | (15,443) | (2,446) | (13,577) | (1,930,713) |
| (32,551) | (3,355) | (4,735) | | (2,406) | (2,449) | (1,811,158) |
| | (162) | | | | | (23,261) |
| (11,066) | (2,382) | (3,564) | (8,191) | (1,473) | (1,188) | (315,336) |
| (161) | (25) | | (8,070) | (46) | (2,045) | (73,964) |
| | | | | | | |
| (32,385) | (19,366) | (31,355) | (24,266) | 20,093 | (19,109) | (1,401,127) |
| | | | | | | |
| 79,528 | 15,775 | 912 | 11,622 | | 11,395 | 32,445,188 |
| 17,666 | 7,508 | 3,884 | 7,382 | 36,977 | 2,321 | 1,327,626 |
| (92,330) | (37,513) | | (7,081) | (56,827) | (4,453) | (33,418,948) |
| 4,864 | (14,230) | 4,796 | 11,923 | (19,850) | 9,263 | 353,866 |
| | | | | | | |
| 51,266 | 507 | (15,742) | (1,903) | (1,034) | 2,071 | 298,989 |
| | | | | | | |
| 160,099 | 16,771 | 83,381 | 24,524 | 3,770 | 23,972 | 3,302,306 |
| (379) | | | 1,049 | | | 670 |
| 159,720 | 16,771 | 83,381 | 25,573 | 3,770 | 23,972 | 3,302,976 |
| | | | | | | |
| $ 210,986 | $ 17,278 | $ 67,639 | $ 23,670 | $ 2,736 | $ 26,043 | $ 3,601,965 |

*Concluded on the following page*

STATE OF TEXAS

# Schedule of Cash Flows
# Colleges and Universities – Major Enterprise Fund (concluded)

For the Fiscal Year Ended August 31, 2007 (Amounts in Thousands)

| | University of Texas System | Texas A & M University System | Texas Tech University System | University of Houston System | Texas State University System |
|---|---|---|---|---|---|
| **RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES** | | | | | |
| Operating (Loss) | $(2,370,436) | $(1,118,879) | $(340,947) | $(303,969) | $(314,772) |
| Adjustments to Reconcile Operating (Loss) to Net Cash Provided by Operating Activities: | | | | | |
| Depreciation and Amortization | 626,913 | 128,998 | 51,134 | 40,973 | 48,400 |
| Bad Debt Expense | 219,729 | 2,207 | | 133 | 189 |
| Operating Income (Loss) and Cash Flow Categories Classification Differences | | 942 | | | (235) |
| Changes in Assets and Liabilities: | | | | | |
| (Increase) Decrease in Receivables | (293,949) | (3,964) | (3,056) | 926 | (10,140) |
| (Increase) Decrease in Due From Other Funds | | (8,906) | (652) | | (553) |
| (Increase) Decrease in Inventories | 2,029 | 1,261 | (122) | (682) | (922) |
| (Increase) Decrease in Notes Receivable | | | 1,738 | | 206 |
| (Increase) Decrease in Loans and Contracts | (5,195) | (8,289) | | 92 | 137 |
| (Increase) Decrease in Other Assets | (15,672) | (484) | 699 | (5,268) | 492 |
| (Increase) Decrease in Prepaid Expenses | | (5,180) | (6,783) | (5,125) | (8,285) |
| (Increase) Decrease in State Appropriations | | | | | (5,108) |
| Increase (Decrease) in Payables | 1,855 | (26,764) | 15,574 | (4,817) | 4,007 |
| Increase (Decrease) in Deposits | (4,352) | 558 | | | 9,872 |
| Increase (Decrease) in Due To Other Funds | | 17,201 | | | 916 |
| Increase (Decrease) in Deferred Revenue | 56,781 | 24,609 | 10,541 | 10,439 | 14,704 |
| Increase (Decrease) in Compensated Absence Liability | 25,055 | 3,100 | 2,144 | 1,201 | 979 |
| Increase (Decrease) in Benefits Payable | | (1,392) | | 2,189 | |
| Increase (Decrease) in Other Liabilities | 377,517 | 69,726 | 14,985 | 9,747 | 29,269 |
| Total Adjustments | 990,711 | 193,623 | 86,202 | 49,808 | 83,928 |
| Net Cash Provided by Operating Activities | $(1,379,725) | $ (925,256) | $(254,745) | $(254,161) | $(230,844) |
| **NONCASH TRANSACTIONS** | | | | | |
| Net Change in Fair Value of Investments | $(1,628,788) | $ (179,147) | $ (49,183) | $ (31,632) | $ (5,128) |
| Donation of Capital Assets | $ (38,805) | $ (7,261) | $ | $ 19,854 | $ (54) |
| Borrowing Under Capital Lease Purchase | $ (756) | $ | $ | $ | $ (491) |
| Other | $ 16,285 | $ (1,122) | $ | $ (50,079) | $ 9 |

| University of North Texas System | Texas Woman's University | Stephen F. Austin State University | Texas Southern University | Midwestern State University | Texas State Technical College | Totals |
|---|---|---|---|---|---|---|
| $ (153,455) | $ (62,217) | $ (62,262) | $ (53,342) | $ (33,835) | $ (79,462) | $ (4,893,576) |
| 26,870 | 9,558 | 7,716 | 11,360 | 5,980 | 5,312 | 963,214 |
| 3,699 | 815 | 213 | 2,667 | 115 | | 229,767 |
| | | | | | (829) | (122) |
| (1,845) | (322) | 611 | 5,741 | (1,558) | (2,011) | (309,567) |
| | 6 | 30 | 12 | | 379 | (9,684) |
| 15 | (234) | 2 | (49) | | 59 | 1,357 |
| | | 1,303 | | | | 3,247 |
| (495) | | 1,693 | | (4) | | (12,061) |
| (2,196) | | 638 | (2,459) | | | (24,250) |
| (538) | (81) | (1,427) | (6,815) | 114 | | (34,120) |
| | (1,059) | (4,758) | | | | (10,925) |
| (2,179) | 1,495 | 1,282 | 1,307 | (528) | 1,989 | (6,779) |
| | | (58) | | | | 6,020 |
| | (95) | | | | | 18,022 |
| 2,330 | (1,186) | 5,998 | (5,209) | 2,185 | 131 | 121,323 |
| | 187 | 237 | 145 | | 220 | 33,268 |
| | | | (635) | | | 162 |
| 8,483 | 2,984 | 3,389 | 4,574 | 1,340 | 8,758 | 530,772 |
| 34,144 | 12,068 | 16,869 | 10,639 | 7,644 | 14,008 | 1,499,644 |
| $ (119,311) | $ (50,149) | $ (45,393) | $ (42,703) | $ (26,191) | $ (65,454) | $ (3,393,932) |
| $ (6,391) | $ (781) | $ (167) | $ (2,548) | $ (111) | $ | $ (1,903,876) |
| $ | $ | $ | $ | $ | $ (106) | $ (26,372) |
| $ | $ | $ | $ | $ | $ (2,049) | $ (3,296) |
| $ (186) | $ | $ | $ | $ 15 | $ (311) | $ (35,389) |

# Fiduciary Funds

# Pension and Other Employee Benefit Trust Funds

The **Teacher Retirement System Trust Account** is for the accumulation of resources for pension benefit payments for qualified employees of public education in Texas.

The **S.E.R.S. Trust Account** is for the accumulation of resources for pension benefit payments to qualified state employees or beneficiaries.

The **Law Enforcement and Custodial Officer Supplement Retirement Fund** provides supplemental retirement and death benefits for members of the Employees Retirement System of Texas who have completed 20 or more years of service or have become occupationally disabled or died while serving as commissioned law enforcement officers of a state agency.

The **Judicial Retirement System - Plan Two Trust Fund** accounts for receipt of monies for retirement and death benefits for certain state-paid judges and judicial officers.

The **Fire Fighters' Relief and Retirement Fund** accounts for the accumulation of resources for pension, death and disability benefits for fire fighters who serve without monetary reward.

The **Judicial Retirement System - Plan One Fund** accounts for appropriations received from the state's general revenue fund for annuity and refund payments to eligible judicial employees.

The **Retired School Employees Group Insurance Trust** receives contributions and other funds authorized to be deposited in the fund to pay insurance premiums, to reimburse for claims paid by a non-state entity and to pay administrative expenses. The Teacher Retirement System of Texas, as trustee, administers the fund for public school retirees and their dependents. The public school entities are not considered part of the reporting entity for the state of Texas.

The **State Retiree Health Plan Trust** accounts for the receipt of monies for postemployment health care, life and dental insurance benefits provided under the Group Benefits Program. The Employees Retirement System of Texas, as trustee, administers the fund for retired employees of the state and other non-state entities as specified by the Legislature.

The **Deferred Compensation Trust Fund** receives employee deferrals in accordance with Internal Revenue Code 457, appropriations by the state for the administration of the deferred compensation plan, trust income and fees. The state of Texas is the only employer participating in the plan.

The **State Employee Cafeteria Plan Trust Fund** receives salary reduction payments and makes disbursements for benefits included in a cafeteria plan, other than Employees Uniform Group Insurance Program coverages. The fund also receives appropriations by the state for the administration of the cafeteria plan.

The **Texa$aver Administrative Trust Fund** receives deferrals, purchases qualified investments and pays expenses associated with administration of the deferred compensation plan.

STATE OF TEXAS

# Combining Statement of Fiduciary Net Assets – Pension and Other Employee Benefit Trust Funds

August 31, 2007 (Amounts in Thousands)

| | Teacher Retirement System Trust Account | S.E.R.S. Trust Account | Law Enforcement and Custodial Officer Supplement Retirement Fund | Judicial Retirement System - Plan Two Trust Fund | Fire Fighters' Relief and Retirement Fund |
|---|---|---|---|---|---|
| **ASSETS** | | | | | |
| Cash and Cash Equivalents | $ 1,120,251 | $ 93,290 | $ 1,932 | $ 4,305 | $ 466 |
| Securities Lending Collateral | 23,114,635 | 5,778,463 | 177,506 | 82,341 | |
| Investments: | | | | | |
| U.S. Government | 17,606,026 | 5,224,586 | 157,637 | 81,438 | |
| Corporate Equity | 53,954,674 | 10,302,279 | 341,322 | 85,956 | 25,093 |
| Corporate Obligations | 11,444,859 | 2,707,838 | 89,712 | 22,593 | |
| Foreign Securities | 18,807,636 | 4,618,926 | 153,028 | 38,537 | 13,405 |
| Other | 9,086,781 | 576,548 | 19,338 | 4,234 | 11,643 |
| Receivables: | | | | | |
| Interest and Dividends | 448,536 | 5,331 | 175 | 46 | 33 |
| Accounts | 170,959 | 50,264 | | 1,234 | 690 |
| Investment Trades | 57,002 | 156,980 | 5,199 | 1,308 | |
| Other | 397 | | | | |
| Due From Other Funds (Note 12) | 687 | 21,861 | 3,723 | 116 | |
| Properties, at Cost, Net of Accumulated Depreciation | 29,182 | 5,772 | | | |
| Other Assets | | | | | |
| Total Assets | 135,841,625 | 29,542,138 | 949,572 | 322,108 | 51,330 |
| **LIABILITIES** | | | | | |
| Payables: | | | | | |
| Accounts | $ 4,773 | $ 21,245 | $ 249 | $ 71 | $ 135 |
| Investment Trades | 43,358 | 258,172 | 8,550 | 2,151 | |
| Payroll | 122 | 1,837 | | | |
| Other Liabilities | 482,493 | | | | |
| Deferred Revenue | 31,527 | | | | 231 |
| Due To Other Funds (Note 12) | 32,590 | 829 | 328 | 19,880 | |
| Employees' Compensable Leave | 3,327 | 1,920 | | | |
| Obligations/Securities Lending | 23,114,635 | 5,778,464 | 177,506 | 82,341 | |
| Total Liabilities | 23,712,825 | 6,062,467 | 186,633 | 104,443 | 366 |
| **NET ASSETS** | | | | | |
| Held in Trust for Pension Benefits and Other Purposes | $112,128,800 | $ 23,479,671 | $ 762,939 | $ 217,665 | $ 50,964 |

* This fund is a new fund that is discretely presented.

| Judicial Retirement System - Plan One Fund | Retired School Employees Group Insurance Trust | State Retiree Health Plan Trust* | Deferred Compensation Trust Fund | State Employee Cafeteria Plan Trust Fund | Texa$aver Administrative Trust Fund | Totals |
|---|---|---|---|---|---|---|
| $ | $ 162,087 | $ 9,320 | $ 1,208 | $ 3,064 | $ 1,371 | $ 1,397,294 |
| | | | | | | 29,152,945 |
| | | | | | | 23,069,687 |
| | | | | | | 64,709,324 |
| | | | | | | 14,265,002 |
| | | | | | | 23,631,532 |
| | 494,901 | | | | | 10,193,445 |
| | 3,030 | | 3 | 17 | 6 | 457,177 |
| | 53,128 | 5,752 | 9 | 5,285 | | 287,321 |
| | | | | | | 220,489 |
| | | | | | | 397 |
| 324 | 24,960 | 72,237 | | 5 | | 123,913 |
| | | | | | | 34,954 |
| | | | | 250 | | 250 |
| 324 | 738,106 | 87,309 | 1,220 | 8,621 | 1,377 | 167,543,730 |
| | | | | | | |
| $ 324 | $ 347 | $ 85,094 | $ 133 | $ 7,396 | $ | $ 119,767 |
| | | | | | | 312,231 |
| | 114,901 | | | | | 116,860 |
| | | | | | | 482,493 |
| | | 490 | 15 | | | 32,263 |
| | | 1,725 | 51 | 34 | 37 | 55,474 |
| | 61 | | | | | 5,308 |
| | | | | | | 29,152,946 |
| 324 | 115,309 | 87,309 | 199 | 7,430 | 37 | 30,277,342 |
| | | | | | | |
| $ 0 | $ 622,797 | $ 0 | $ 1,021 | $ 1,191 | $ 1,340 | $137,266,388 |

STATE OF TEXAS

# Combining Statement of Changes in Fiduciary Net Assets – Pension and Other Employee Benefit Trust Funds

For the Fiscal Year Ended August 31, 2007 (Amounts in Thousands)

| | Teacher Retirement System Trust Account* | S.E.R.S. Trust Account | Law Enforcement and Custodial Officer Supplement Retirement Fund | Judicial Retirement System - Plan Two Trust Fund | Fire Fighters' Relief and Retirement Fund |
|---|---|---|---|---|---|
| **ADDITIONS** | | | | | |
| Contributions: | | | | | |
| Member Contributions | $ 1,949,099 | $ 328,039 | $ | $ 4,125 | $ 2,900 |
| State Contributions | 1,497,724 | 329,981 | | 10,909 | |
| Premium Contributions | | | | | |
| Federal Contributions | | | | | |
| Other Contributions | 282,078 | | | | |
| Total Contributions | 3,728,901 | 658,020 | 0 | 15,034 | 2,900 |
| Investment Income: | | | | | |
| From Investing Activities: | | | | | |
| Net Appreciation in | | | | | |
| Fair Value of Investments | 11,232,429 | 1,862,073 | 61,103 | 16,498 | 2,419 |
| Interest and Investment Income | 3,042,756 | 773,365 | 25,328 | 7,338 | 3,694 |
| Total Investing Income | 14,275,185 | 2,635,438 | 86,431 | 23,836 | 6,113 |
| Less Investing Activities Expense | 20,942 | 25,895 | 896 | 204 | |
| Net Income from Investing Activities | 14,254,243 | 2,609,543 | 85,535 | 23,632 | 6,113 |
| From Securities Lending Activities: | | | | | |
| Securities Lending Income | 871,886 | 292,098 | 6,165 | 12,563 | |
| Less Securities Lending Expense: | | | | | |
| Borrower Rebates | 820,327 | 276,472 | 5,857 | 11,844 | |
| Management Fees | 7,255 | 2,274 | 44 | 106 | |
| Net Income from Securities Lending | 44,304 | 13,352 | 264 | 613 | 0 |
| Total Net Investment Income | 14,298,547 | 2,622,895 | 85,799 | 24,245 | 6,113 |
| Other Additions: | | | | | |
| Settlement of Claims | | | | | 57 |
| Other Revenue | | 208 | | | |
| Loss on Sale of Properties | | (6) | | | |
| Transfer In* | 7,972 | 48,601 | | | 1,418 |
| Total Other Additions | 7,972 | 48,803 | 0 | 0 | 1,475 |
| Total Additions | 18,035,420 | 3,329,718 | 85,799 | 39,279 | 10,488 |
| **DEDUCTIONS** | | | | | |
| Benefits | 5,766,289 | 1,294,290 | 32,150 | 5,747 | 2,471 |
| Refunds of Contributions | 277,932 | 79,564 | | 58 | |
| Transfer Out | 73,799 | 8,314 | | | 709 |
| Intergovernmental Payments | | | | | |
| Administrative Expenses | 25,660 | 14,504 | 483 | 383 | 527 |
| Depreciation Expense | 1,127 | 671 | | | |
| Settlement of Claims | | 5 | | | |
| Interest Expense | | | | | |
| Other Expenses | 776 | 811 | 21 | 12 | 2 |
| Total Deductions | 6,145,583 | 1,398,159 | 32,654 | 6,200 | 3,709 |
| **INCREASE (DECREASE) IN NET ASSETS** | 11,889,837 | 1,931,559 | 53,145 | 33,079 | 6,779 |
| **NET ASSETS** | | | | | |
| Net Assets, September 1, 2006 | 100,238,963 | 21,548,112 | 709,794 | 184,586 | 44,185 |
| Restatements | | | | | |
| Net Assets, September 1, 2006, as Restated | 100,238,963 | 21,548,112 | 709,794 | 184,586 | 44,185 |
| Net Assets, August 31, 2007 | $112,128,800 | $ 23,479,671 | $ 762,939 | $ 217,665 | $ 50,964 |

* State contributions to the Teacher Retirement System (TRS) pension and other postemployment benefits plans are included in transfers in. For fiscal 2007, the total state contributions were $1,735,915 (in thousands) for the TRS plans.

** This fund is a new fund that is discretely presented.

| Judicial Retirement System - Plan One Fund | Retired School Employees Group Insurance Trust* | State Retiree Health Plan Trust** | Deferred Compensation Trust Fund | State Employee Cafeteria Plan Trust Fund | Texa$aver Administrative Trust Fund | Totals |
|---|---|---|---|---|---|---|
| $ | $ | $ | $ | $ 67,694 | $ | $ 2,351,857 |
| | 238,191 | 438,243 | | | | 2,515,048 |
| | 614,790 | 108,387 | | | | 723,177 |
| | 52,330 | 28,558 | | | | 80,888 |
| | | | | 731 | | 282,809 |
| 0 | 905,311 | 575,188 | 0 | 68,425 | 0 | 5,953,779 |
| | | | | | | |
| | | | | | | 13,174,522 |
| | 32,672 | 1,541 | 71 | 89 | 462 | 3,887,316 |
| 0 | 32,672 | 1,541 | 71 | 89 | 462 | 17,061,838 |
| | | | 9 | | 3 | 47,949 |
| 0 | 32,672 | 1,541 | 62 | 89 | 459 | 17,013,889 |
| | | | | | | 1,182,712 |
| | | | | | | 1,114,500 |
| | | | | | | 9,679 |
| 0 | 0 | 0 | 0 | 0 | 0 | 58,533 |
| 0 | 32,672 | 1,541 | 62 | 89 | 459 | 17,072,422 |
| | | | | | | 57 |
| | 55 | | 161 | 105 | 301 | 830 |
| | | | | | | (6) |
| 29,029 | | | 342 | | | 87,362 |
| 29,029 | 55 | 0 | 503 | 105 | 301 | 88,243 |
| 29,029 | 938,038 | 576,729 | 565 | 68,619 | 760 | 23,114,444 |
| 29,029 | 775,701 | 574,030 | | 67,134 | | 8,546,841 |
| | | | | | | 357,554 |
| | 1,292 | | | | | 84,114 |
| | (1,293) | | | | | (1,293) |
| | 2,523 | 2,565 | 502 | 316 | 430 | 47,893 |
| | | | | | | 1,798 |
| | | | | | | 5 |
| | | | | 129 | | 129 |
| | 4 | 134 | 24 | 1,440 | 18 | 3,242 |
| 29,029 | 778,227 | 576,729 | 526 | 69,019 | 448 | 9,040,283 |
| 0 | 159,811 | 0 | 39 | (400) | 312 | 14,074,161 |
| | 462,986 | | 312,857 | 1,591 | 1,028 | 123,504,102 |
| | | | (311,875) | | | (311,875) |
| 0 | 462,986 | 0 | 982 | 1,591 | 1,028 | 123,192,227 |
| $ 0 | $ 622,797 | $ 0 | $ 1,021 | $ 1,191 | $ 1,340 | $137,266,388 |

# External Investment Trust Funds

The **Texas Government Investment Pool (TexPool) Trust Fund** is a local government investment pool administered by the Texas Treasury Safekeeping Trust Company of the Comptroller's office. The investor base consists of cities, counties, school districts, institutions of higher education, special districts and other public entities of Texas.

The **Texas Treasury Safekeeping Trust Company Municipal Utility District Fund** is an investment pool available for municipal utility districts and is administered by the Texas Treasury Safekeeping Trust Company of the Comptroller's office. The function of this fund is to invest moneys on behalf of these legally separate entities. In fiscal 2007 the balances of this fund were transferred to the **Texas Government Investment Pool**.

STATE OF TEXAS

# Combining Statement of Fiduciary Net Assets – External Investment Trust Funds

August 31, 2007 (Amounts in Thousands)

| | Texas Government Investment Pool (TexPool) Trust Fund | Texas Treasury Safekeeping Trust Company Municipal Utility District Fund * | Totals |
|---|---|---|---|
| **ASSETS** | | | |
| Cash and Cash Equivalents | $ 4,796 | $ | $ 4,796 |
| Investments: | | | |
| U.S. Government | 2,737,650 | | 2,737,650 |
| Repurchase Agreements | 13,956,076 | | 13,956,076 |
| Other Investment | 47,358 | | 47,358 |
| Interest and Dividends Receivable | 39,008 | | 39,008 |
| Total Assets | 16,784,888 | 0 | 16,784,888 |
| **LIABILITIES** | | | |
| Payables: | | | |
| Accounts | $ 81,149 | $ | $ 81,149 |
| Investment Trades | 249,983 | | 249,983 |
| Other Liabilities | 773 | | 773 |
| Total Liabilities | 331,905 | 0 | 331,905 |
| **NET ASSETS** | | | |
| Net Assets Held in Trust for Pool Participants | $16,452,983 | $ 0 | $16,452,983 |

* This fund has activity on the combining statement of changes in fiduciary net assets - external investment trust funds.

STATE OF TEXAS

# Combining Statement of Changes in Fiduciary Net Assets – External Investment Trust Funds

For the Fiscal Year Ended August 31, 2007 (Amounts in Thousands)

| | Texas Government Investment Pool (TexPool) Trust Fund | Texas Treasury Safekeeping Trust Company Municipal Utility District Fund | Totals |
|---|---|---|---|
| **ADDITIONS** | | | |
| Investment Income: | | | |
| From Investing Activities: | | | |
| Interest and Investment Income | $ 926,157 | $ 8 | $ 926,165 |
| Total Investing Income | 926,157 | 8 | 926,165 |
| Less Investing Activities Expense | 8,461 | | 8,461 |
| Net Income from Investing Activities | 917,696 | 8 | 917,704 |
| Capital Share and Individual Account Transactions: | | | |
| Net Increase (Decrease) in Participant Investments | 2,927,597 | (411) | 2,927,186 |
| **INCREASE IN NET ASSETS** | 3,845,293 | (403) | 3,844,890 |
| **NET ASSETS** | | | |
| Net Assets, September 1, 2006 | 12,607,690 | 403 | 12,608,093 |
| Net Assets, August 31, 2007 | $16,452,983 | $ 0 | $16,452,983 |

# Private-Purpose Trust Funds

The **Tobacco Settlement Permanent Trust (Political Subdivisions)** holds the portion of the tobacco settlement money designated for the exclusive benefit of other political subdivisions. Other political subdivisions include cities, counties and/or local hospital districts that are responsible for indigent health care. The fund is administered by the Comptroller's office - Treasury Fiscal.

The **Texas Insurance Companies Assets Account – Reserve and Custodial Fund** holds assets in trust for claims associated with insurance company liquidations. Most balances are normally held outside the Treasury. The Department of Insurance administers the fund.

The **Catastrophe Reserve Trust Fund** is a state fund that was created to provide relief to insurance companies within the state in the event of certain catastrophic losses. Certain property insurers authorized to transact property insurance in Texas make payments to the fund.

The **Inmate Trust Fund and Employee Service Option Fund** accounts for offender commissary and medical accounts along with the Texas Department of Criminal Justice employee commissary, laundry and/or barber contributions.

The **Texas Tomorrow Trust Fund** receives money contributed by college saving plan account holders, money acquired from private sources and income from investment of deposits. The fund may be used only to pay costs of program administration and operations, make payments to institutions of higher education or private or independent institutions and make refunds to college saving plan account holders.

STATE OF TEXAS

# Combining Statement of Fiduciary Net Assets – Private-Purpose Trust Funds

August 31, 2007 (Amounts in Thousands)

| | Tobacco Settlement Permanent Trust (Political Subdivisions) | Texas Insurance Companies Assets Account - Reserve and Custodial Fund | Catastrophe Reserve Trust Fund | Inmate Trust and Employee Service Option Fund | Texas Tomorrow Trust Fund | Other Private-Purpose Trust Funds | Totals |
|---|---|---|---|---|---|---|---|
| **ASSETS** | | | | | | | |
| Cash and Cash Equivalents | $ 20 | $ 2,189 | $ | $ 5,147 | $ 72 | $ 33,906 | $ 41,334 |
| Restricted Cash and Cash Equivalents | | | | | | 350 | 350 |
| Securities Lending Collateral | 80,137 | | | | | | 80,137 |
| Investments: | | | | | | | |
| U.S. Government | 16,520 | 100 | | 16,014 | | 2,102 | 34,736 |
| Corporate Equity | 1,473,462 | | | | | 16,011 | 1,489,473 |
| Corporate Obligations | 74,459 | | | | | 5,110 | 79,569 |
| Repurchase Agreements | | 187,929 | 382,518 | | | 1,732 | 572,179 |
| Other | 837,809 | | | | 223,765 | 13,190 | 1,074,764 |
| Receivables: | | | | | | | |
| Interest and Dividends | 3,970 | | | | | 56 | 4,026 |
| Accounts | | 27 | 54 | | | 327 | 408 |
| Investment Trades | 2,705 | | | | 746 | | 3,451 |
| Other | | | | | | 1,538 | 1,538 |
| Inventories | | | | | | 1 | 1 |
| Properties, at Cost, Net of Accumulated Depreciation | | | | | | 1,036 | 1,036 |
| Other Assets | | 88,515 | | | | | 88,515 |
| Total Assets | 2,489,082 | 278,760 | 382,572 | 21,161 | 224,583 | 75,359 | 3,471,517 |
| **LIABILITIES** | | | | | | | |
| Payables: | | | | | | | |
| Accounts | $ 1,224 | $ | $ | $ 932 | $ 15 | $ 12,136 | $ 14,307 |
| Investment Trades | 5,103 | | | | 744 | | 5,847 |
| Interest | | | | | | 47 | 47 |
| Deferred Revenue | | | | | 58 | 1 | 59 |
| Obligations/Securities Lending | 80,137 | | | | | | 80,137 |
| Funds Held for Others | | 88,515 | | | | | 88,515 |
| Total Liabilities | 86,464 | 88,515 | 0 | 932 | 817 | 12,184 | 188,912 |
| **NET ASSETS** | | | | | | | |
| Net Assets Held in Trust for Individuals, Organizations and Other Governments | 2,402,618 | 190,245 | 382,572 | 20,229 | 223,766 | 63,175 | 3,282,605 |
| Total Net Assets | $ 2,402,618 | $ 190,245 | $ 382,572 | $ 20,229 | $ 223,766 | $ 63,175 | $3,282,605 |

STATE OF TEXAS

# Combining Statement of Changes in Fiduciary Net Assets – Private-Purpose Trust Funds

For the Fiscal Year Ended August 31, 2007 (Amounts in Thousands)

| | Tobacco Settlement Permanent Trust (Political Subdivisions) | Texas Insurance Companies Assets Account - Reserve and Custodial Fund | Catastrophe Reserve Trust Fund | Inmate Trust and Employee Service Option Fund | Texas Tomorrow Trust Fund | Other Private-Purpose Trust Funds | Totals |
|---|---|---|---|---|---|---|---|
| **ADDITIONS** | | | | | | | |
| Contributions: | | | | | | | |
| Federal Contributions | $ | $ | $ | $ | $ | $ 12,125 | $ 12,125 |
| Other Contributions | | | | | 49,625 | | 49,625 |
| Total Contributions | 0 | 0 | 0 | 0 | 49,625 | 12,125 | 61,750 |
| Investment Income: | | | | | | | |
| From Investing Activities: | | | | | | | |
| Net Appreciation in Fair Value of Investments | 279,569 | | | | 17,437 | 1,826 | 298,832 |
| Interest and Investment Income | 33,392 | 8,913 | 18,975 | | 4,093 | 4,413 | 69,786 |
| Total Investing Income | 312,961 | 8,913 | 18,975 | 0 | 21,530 | 6,239 | 368,618 |
| Less Investing Activities Expense | | | | | 818 | | 818 |
| Net Income from Investing Activities | 312,961 | 8,913 | 18,975 | 0 | 20,712 | 6,239 | 367,800 |
| From Securities Lending Activities: | | | | | | | |
| Securities Lending Income | 4,780 | | | | | | 4,780 |
| Less Securities Lending Expense: | | | | | | | |
| Borrower Rebates | 4,680 | | | | | | 4,680 |
| Net Income from Securities Lending | 100 | 0 | 0 | 0 | 0 | 0 | 100 |
| Total Net Investment Income | 313,061 | 8,913 | 18,975 | 0 | 20,712 | 6,239 | 367,900 |
| Other Additions: | | | | | | | |
| Settlement of Claims | | | | | | 4,067 | 4,067 |
| Other Revenue | | 87,303 | 43,654 | 112,368 | 744 | 4,310 | 248,379 |
| Total Other Additions | 0 | 87,303 | 43,654 | 112,368 | 744 | 8,377 | 252,446 |
| Total Additions | 313,061 | 96,216 | 62,629 | 112,368 | 71,081 | 26,741 | 682,096 |
| **DEDUCTIONS** | | | | | | | |
| Benefits | | | | | 21,901 | 1,060 | 22,961 |
| Transfer Out | | | 1,000 | | | 60 | 1,060 |
| Intergovernmental Payments | 82,691 | | | | | 1,652 | 84,343 |
| Administrative Expenses | 7,100 | | | | 756 | 23 | 7,879 |
| Depreciation Expense | | | | | | 38 | 38 |
| Settlement of Claims | | 43,890 | | | | 4,689 | 48,579 |
| Interest Expense | | | | | | 31 | 31 |
| Other Expenses | | 7,772 | 71 | 111,113 | | 13,250 | 132,206 |
| Total Deductions | 89,791 | 51,662 | 1,071 | 111,113 | 22,657 | 20,803 | 297,097 |
| **INCREASE IN NET ASSETS** | 223,270 | 44,554 | 61,558 | 1,255 | 48,424 | 5,938 | 384,999 |
| **NET ASSETS** | | | | | | | |
| Net Assets, September 1, 2006 | 2,179,348 | 145,691 | 321,014 | 18,974 | 175,342 | 57,237 | 2,897,606 |
| Net Assets, August 31, 2007 | $ 2,402,618 | $ 190,245 | $ 382,572 | $ 20,229 | $ 223,766 | $ 63,175 | $ 3,282,605 |

# Agency Funds

The **Texas Public Finance Authority Bond Escrow Account** is used to hold funds for various defeased or refunded bonds.

The **Life, Health, Accident and Casualty Insurance Companies Trust Account** holds cash or securities deposited with the state by insurance companies as required by law.

The **Texas Workers' Compensation Self-Insurance Fund** is used to deposit certified self-insurer security deposits. These deposits may be applied to the self-insurer's incurred liabilities for compensation.

The **City, County, Metropolitan Transit Authority (MTA) and Special Purpose District (SPD) Sales Tax Trust Account** is used to record the receipt of local sales and use tax collected by the Comptroller for each city, county, metropolitan transit authority and special purpose district authorizing the collection.

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# Combining Statement of Fiduciary Net Assets – Agency Funds

August 31, 2007 (Amounts in Thousands)

| | Texas Public Finance Authority Bond Escrow Account | Life, Health, Accident and Casualty Insurance Companies Trust Account | Texas Workers' Compensation Self Insurance Fund | City, County, MTA and SPD Sales Tax Trust Account | Other Agency Funds | Totals |
|---|---|---|---|---|---|---|
| **ASSETS** | | | | | | |
| Cash and Cash Equivalents | $ 38 | $ 215 | $ 15,750 | $ 709,588 | $ 230,886 | $ 956,477 |
| Investments: | | | | | | |
| U.S. Government | 235,832 | | | | 186 | 236,018 |
| Corporate Equity | | | | | 135,906 | 135,906 |
| Corporate Obligations | | | | | 35 | 35 |
| Repurchase Agreements | | | | | 48,919 | 48,919 |
| Other | | | | | 21,501 | 21,501 |
| Receivables: | | | | | | |
| Other Intergovernmental | | | | | 1,492 | 1,492 |
| Interest and Dividends | 1,263 | | | | 6 | 1,269 |
| Accounts | | | | | 21,241 | 21,241 |
| Other | | | | | 15 | 15 |
| Due From Other Funds | | | | | 255 | 255 |
| Other Assets | | 883,987 | 687,184 | | 92,265 | 1,663,436 |
| Total Assets | $ 237,133 | $ 884,202 | $ 702,934 | $ 709,588 | $ 552,707 | $3,086,564 |
| **LIABILITIES** | | | | | | |
| Payables: | | | | | | |
| Accounts | $ | $ | $ | $ | $ 14,878 | $ 14,878 |
| Other Intergovernmental | | | | 709,588 | 6,537 | 716,125 |
| Due To Other Funds | | | | | 479 | 479 |
| Funds Held for Others | 237,133 | 884,202 | 702,934 | | 530,813 | 2,355,082 |
| Total Liabilities | $ 237,133 | $ 884,202 | $ 702,934 | $ 709,588 | $ 552,707 | $3,086,564 |

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# Combining Statement of Changes in Assets and Liabilities – Agency Funds

August 31, 2007 (Amounts in Thousands)

| | Beginning Balance September 1, 2006 | Additions | Deductions | Ending Balance August 31, 2007 |
|---|---|---|---|---|
| **Texas Public Finance Authority Bond Escrow Account** | | | | |
| **ASSETS** | | | | |
| Cash and Cash Equivalents | $ 38 | $ | $ | $ 38 |
| Investments | 503,758 | 24,296 | 292,222 | 235,832 |
| Receivables: | | | | |
| Interest and Dividends | 2,876 | | 1,613 | 1,263 |
| Total Assets | $ 506,672 | $ 24,296 | $ 293,835 | $ 237,133 |
| **LIABILITIES** | | | | |
| Funds Held for Others | $ 506,672 | $ | $ 269,539 | $ 237,133 |
| Total Liabilities | $ 506,672 | $ 0 | $ 269,539 | $ 237,133 |
| **Life, Health, Accident and Casualty Insurance Companies Trust Account** | | | | |
| **ASSETS** | | | | |
| Cash and Cash Equivalents | $ 145 | $ 215 | $ 145 | $ 215 |
| Other Assets | 823,654 | 60,333 | | 883,987 |
| Total Assets | $ 823,799 | $ 60,548 | $ 145 | $ 884,202 |
| **LIABILITIES** | | | | |
| Funds Held for Others | $ 823,799 | $ 60,548 | $ 145 | $ 884,202 |
| Total Liabilities | $ 823,799 | $ 60,548 | $ 145 | $ 884,202 |
| **Texas Workers' Compensation Self Insurance Fund** | | | | |
| **ASSETS** | | | | |
| Cash and Cash Equivalents | $ 15,878 | $ 1,625 | $ 1,753 | $ 15,750 |
| Other Assets | 693,764 | 9,170 | 15,750 | 687,184 |
| Total Assets | $ 709,642 | $ 10,795 | $ 17,503 | $ 702,934 |
| **LIABILITIES** | | | | |
| Accounts Payable | $ | $ 941 | $ 941 | $ |
| Funds Held for Others | 709,642 | 10,795 | 17,503 | 702,934 |
| Total Liabilities | $ 709,642 | $ 11,736 | $ 18,444 | $ 702,934 |
| **City, County, MTA and SPD Sales Tax Trust Account** | | | | |
| **ASSETS** | | | | |
| Cash and Cash Equivalents | $ 622,964 | $ 6,613,573 | $ 6,526,949 | $ 709,588 |
| Total Assets | $ 622,964 | $ 6,613,573 | $ 6,526,949 | $ 709,588 |
| **LIABILITIES** | | | | |
| Payables: | | | | |
| Accounts | $ | $ 5,615,742 | $ 5,615,742 | $ |
| Other Intergovernmental | 622,964 | 709,588 | 622,964 | 709,588 |
| Funds Held for Others | | 7,236,537 | 7,236,537 | |
| Total Liabilities | $ 622,964 | $ 13,561,867 | $ 13,475,243 | $ 709,588 |

*Concluded on the following page*

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# Combining Statement of Changes in Assets and Liabilities – Agency Funds (concluded)

August 31, 2007 (Amounts in Thousands)

| | Beginning Balance September 1, 2006 | Additions | Deductions | Ending Balance August 31, 2007 |
|---|---|---|---|---|
| **Other Agency Funds** | | | | |
| **ASSETS** | | | | |
| Cash and Cash Equivalents | $ 102,399 | $ 7,613,318 | $ 7,484,831 | $ 230,886 |
| Investments | 143,052 | 190,909 | 127,414 | 206,547 |
| Receivables: | | | | |
| Other Intergovernmental | 1,273 | 219 | | 1,492 |
| Interest and Dividends | 2 | 4 | | 6 |
| Accounts | 20,921 | 137,807 | 137,487 | 21,241 |
| Other | 38 | 134 | 157 | 15 |
| Due From Other Funds | 1 | 825 | 571 | 255 |
| Due From Component Units | 274 | | 274 | |
| Interfund Receivable | | 1,117 | 1,117 | |
| Other Assets | 144,982 | 2,153 | 54,870 | 92,265 |
| Total Assets | $ 412,942 | $ 7,946,486 | $ 7,806,721 | $ 552,707 |
| **LIABILITIES** | | | | |
| Payables: | | | | |
| Accounts | $ 14,618 | $ 1,150,974 | $ 1,150,714 | $ 14,878 |
| Other Intergovernmental | 2,605 | 3,933 | 1 | 6,537 |
| Due To Other Funds | 1,586 | 1,276 | 2,383 | 479 |
| Interfund Payable | 3 | 469 | 472 | |
| Funds Held for Others | 394,130 | 7,505,720 | 7,369,037 | 530,813 |
| Total Liabilities | $ 412,942 | $ 8,662,372 | $ 8,522,607 | $ 552,707 |
| **Totals – All Agency Funds** | | | | |
| **ASSETS** | | | | |
| Cash and Cash Equivalents | $ 741,424 | $ 14,228,731 | $ 14,013,678 | $ 956,477 |
| Investments | 646,810 | 215,205 | 419,636 | 442,379 |
| Receivables: | | | | |
| Other Intergovernmental | 1,273 | 219 | | 1,492 |
| Interest and Dividends | 2,878 | 4 | 1,613 | 1,269 |
| Accounts | 20,921 | 137,807 | 137,487 | 21,241 |
| Other | 38 | 134 | 157 | 15 |
| Due From Other Funds | 1 | 825 | 571 | 255 |
| Due From Component Units | 274 | | 274 | |
| Interfund Receivable | | 1,117 | 1,117 | |
| Other Assets | 1,662,400 | 71,656 | 70,620 | 1,663,436 |
| Total Assets | $ 3,076,019 | $ 14,655,698 | $ 14,645,153 | $ 3,086,564 |
| **LIABILITIES** | | | | |
| Payables: | | | | |
| Accounts | $ 14,618 | $ 6,767,657 | $ 6,767,397 | $ 14,878 |
| Other Intergovernmental | 625,569 | 713,521 | 622,965 | 716,125 |
| Due To Other Funds | 1,586 | 1,276 | 2,383 | 479 |
| Interfund Payable | 3 | 469 | 472 | |
| Funds Held for Others | 2,434,243 | 14,813,600 | 14,892,761 | 2,355,082 |
| Total Liabilities | $ 3,076,019 | $ 22,296,523 | $ 22,285,978 | $ 3,086,564 |

# Discretely Presented Component Units

# Discretely Presented Component Units

There are 15 discretely presented component units that are considered material to the state. Details regarding each component unit are included in Note 19. A statement of net assets and a statement of activities has been prepared to report the breakdown of the following discretely presented component units.

**State Bar of Texas**
**Texas Agricultural Finance Authority**
**Texas On-Site Wastewater Treatment Research Council**
**Texas Appraiser Licensing and Certification Board**
**Texas Prepaid Higher Education Tuition Scholarship Foundation, Inc.**
**Texas Guaranteed Student Loan Corporation**
**Texas Boll Weevil Eradication Foundation, Inc.**
**Texas Water Resources Finance Authority**
**Texas Small Business Industrial Development Corporation**
**Texas Economic Development Corporation**
**Texas Disaster Relief Fund**
**Surplus Lines Stamping Office of Texas**
**Texas Health Reinsurance System**
**Texas Health Insurance Risk Pool**
**Texas State Affordable Housing Corporation**

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# Combining Statement of Net Assets – Component Units

August 31, 2007 (Amounts in Thousands)*

| | State Bar of Texas | Texas Agricultural Finance Authority | Texas On-Site Wastewater Treatment Research Council | Texas Appraiser Licensing and Certification Board | Texas Prepaid Higher Education Tuition Scholarship Foundation, Inc. | Texas Guaranteed Student Loan Corporation |
|---|---|---|---|---|---|---|
| **ASSETS** | | | | | | |
| Current Assets: | | | | | | |
| Cash and Cash Equivalents | $ 2,165 | $ 17,848 | $ | $ | $ 3 | $ 23,177 |
| Short-Term Investments | 33,082 | | | | | 639,913 |
| Restricted: | | | | | | |
| Cash and Cash Equivalents | | | | | | |
| Short-Term Investments | | | | | | |
| Loans and Contracts | | | | | | |
| Receivables: | | | | | | |
| Federal | | | | | | 18,451 |
| Other Intergovernmental Accounts | 1,336 | | | | | |
| Interest and Dividends | | 226 | | | | 4,844 |
| Other | | | | | | |
| Due From Primary Government | | | 261 | 87 | | |
| Inventories | 646 | | | 3 | | |
| Prepaid Items | 752 | 156 | | | | |
| Loans and Contracts | | 6,859 | | | | |
| Other Current Assets | | 8 | | | | 4,126 |
| Total Current Assets | 37,981 | 25,097 | 261 | 90 | 3 | 690,511 |
| Noncurrent Assets: | | | | | | |
| Restricted: | | | | | | |
| Cash and Cash Equivalents | | | | | | |
| Investments | | | | | | |
| Loans and Contracts | | | | | | |
| Loans and Contracts | | | | | | |
| Investments | | | | | | |
| Other Receivables | | | | | | |
| Capital Assets: | | | | | | |
| Nondepreciable | 805 | | | | | 3,315 |
| Depreciable | 14,642 | | | 9 | | 50,385 |
| Accumulated Depreciation | (10,395) | | | (9) | | (15,098) |
| Other Noncurrent Assets | | | | | | 1,906 |
| Total Noncurrent Assets | 5,052 | 0 | 0 | 0 | 0 | 40,508 |
| Total Assets | 43,033 | 25,097 | 261 | 90 | 3 | 731,019 |

*Continued on the following page*

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# Combining Statement of Net Assets – Component Units (continued)

August 31, 2007 (Amounts in Thousands)*

| | State Bar of Texas | Texas Agricultural Finance Authority | Texas On-Site Wastewater Treatment Research Council | Texas Appraiser Licensing and Certification Board | Texas Prepaid Higher Education Tuition Scholarship Foundation, Inc. | Texas Guaranteed Student Loan Corporation |
|---|---|---|---|---|---|---|
| **LIABILITIES** | | | | | | |
| Current Liabilities: | | | | | | |
| Payables: | | | | | | |
| Accounts | $ 3,015 | $ | $ 5 | $ 12 | $ | $ 9,337 |
| Payroll | | | | 29 | | |
| Federal | | | | | | 28,755 |
| Interest | | | | | | |
| Due To Primary Government | 428 | | 8 | | | |
| Deferred Revenue | 9,098 | | | | | |
| Capital Lease Obligations | 120 | | | | | |
| Employees' Compensable Leave | 404 | 4 | | 20 | | 1,487 |
| Notes and Loans Payable | 93 | 24,981 | | | | 1,623 |
| Revenue Bonds Payable | | | | | | |
| Other Current Liabilities | 568 | | | | | |
| Total Current Liabilities | 13,726 | 24,985 | 13 | 61 | 0 | 41,202 |
| Noncurrent Liabilities: | | | | | | |
| Capital Lease Obligations | 30 | | | | | |
| Employees' Compensable Leave | 685 | 2 | | 10 | | 853 |
| Notes and Loans Payable | 93 | | | | | 7,993 |
| Liabilities Payable From Restricted Assets | | | | | | 229,091 |
| Revenue Bonds Payable | | | | | | |
| Other Noncurrent Liabilities | | | | | | 167 |
| Total Noncurrent Liabilities | 808 | 2 | 0 | 10 | 0 | 238,104 |
| Total Liabilities | 14,534 | 24,987 | 13 | 71 | 0 | 279,306 |
| **NET ASSETS** | | | | | | |
| Invested in Capital Assets, Net of Related Debt | 4,860 | | | | | 28,985 |
| Restricted for: | | | | | | |
| Education | | | | | | 77,272 |
| Unrestricted | 23,639 | 110 | 248 | 19 | 3 | 345,456 |
| Total Net Assets | $ 28,499 | $ 110 | $ 248 | $ 19 | $ 3 | $ 451,713 |

*Continued on the following page*

* Amounts reported as of Aug. 31, 2007, unless otherwise indicated in Note 19.

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# Combining Statement of Net Assets – Component Units (continued)

August 31, 2007 (Amounts in Thousands)*

| | Texas Boll Weevil Eradication Foundation, Inc. | Texas Water Resources Finance Authority | Texas Small Business Industrial Development Corporation | Texas Economic Development Corporation | Texas Disaster Relief Fund | Surplus Lines Stamping Office of Texas |
|---|---|---|---|---|---|---|
| **ASSETS** | | | | | | |
| Current Assets: | | | | | | |
| Cash and Cash Equivalents | $ 1,180 | $ 3,151 | $ 78,011 | $ 5 | $ 562 | $ 9,650 |
| Short-Term Investments | 74,672 | 18,283 | | 1,671 | | |
| Restricted: | | | | | | |
| Cash and Cash Equivalents | | | | | | |
| Short-Term Investments | | | | | | |
| Loans and Contracts | | | | | | |
| Receivables: | | | | | | |
| Federal | 3,534 | | | | | |
| Other Intergovernmental | 1,325 | | | | | |
| Accounts | 7,413 | | | | | 442 |
| Interest and Dividends | | 365 | 372 | | 2 | |
| Other | 122 | | | | | 49 |
| Due From Primary Government | | | | | | |
| Inventories | 199 | | | | | |
| Prepaid Items | 440 | | 7 | | | |
| Loans and Contracts | | 3,739 | | | | |
| Other Current Assets | | | | | | |
| Total Current Assets | 88,885 | 25,538 | 78,390 | 1,676 | 564 | 10,141 |
| Noncurrent Assets: | | | | | | |
| Restricted: | | | | | | |
| Cash and Cash Equivalents | | | | | | |
| Investments | | | | | | |
| Loans and Contracts | | | | | | |
| Loans and Contracts | | 27,706 | 22,401 | | 759 | |
| Investments | | 15,581 | | | | |
| Other Receivables | 3,958 | | | | | |
| Capital Assets: | | | | | | |
| Nondepreciable | | | | | | |
| Depreciable | 26,741 | | | | | 3,285 |
| Accumulated Depreciation | (18,311) | | | | | (2,820) |
| Other Noncurrent Assets | | | | | | 19 |
| Total Noncurrent Assets | 12,388 | 43,287 | 22,401 | 0 | 759 | 484 |
| Total Assets | 101,273 | 68,825 | 100,791 | 1,676 | 1,323 | 10,625 |

*Continued on the following page*

STATE OF TEXAS

# Combining Statement of Net Assets – Component Units (continued)

August 31, 2007 (Amounts in Thousands)*

| | Texas Boll Weevil Eradication Foundation, Inc. | Texas Water Resources Finance Authority | Texas Small Business Industrial Development Corporation | Texas Economic Development Corporation | Texas Disaster Relief Fund | Surplus Lines Stamping Office of Texas |
|---|---|---|---|---|---|---|
| **LIABILITIES** | | | | | | |
| Current Liabilities: | | | | | | |
| Payables: | | | | | | |
| Accounts | $ 100 | $ | $ 50 | $ 26 | $ | $ 23 |
| Payroll | | | | | | |
| Federal | | | | | | |
| Interest | | 45 | 313 | | | |
| Due To Primary Government | | 4 | | | | |
| Deferred Revenue | | | | | | |
| Capital Lease Obligations | | | | | | |
| Employees' Compensable Leave | 1,287 | | | | | |
| Notes and Loans Payable | 15,480 | | | | | |
| Revenue Bonds Payable | | 5,090 | | | | |
| Other Current Liabilities | 2,371 | | | | | 198 |
| Total Current Liabilities | 19,238 | 5,139 | 363 | 26 | 0 | 221 |
| Noncurrent Liabilities: | | | | | | |
| Capital Lease Obligations | | | | | | |
| Employees' Compensable Leave | | | | | | |
| Notes and Loans Payable | 115,685 | | | | | |
| Liabilities Payable From Restricted Assets | | | | | | |
| Revenue Bonds Payable | | 10,739 | 99,335 | | | |
| Other Noncurrent Liabilities | | | | | | |
| Total Noncurrent Liabilities | 115,685 | 10,739 | 99,335 | 0 | 0 | 0 |
| Total Liabilities | 134,923 | 15,878 | 99,698 | 26 | 0 | 221 |
| **NET ASSETS** | | | | | | |
| Invested in Capital Assets, Net of Related Debt | 863 | | | | | 465 |
| Restricted for: | | | | | | |
| Education | | | | | | |
| Unrestricted | (34,513) | 52,947 | 1,093 | 1,650 | 1,323 | 9,939 |
| Total Net Assets | $ (33,650) | $ 52,947 | $ 1,093 | $ 1,650 | $ 1,323 | $ 10,404 |

*Continued on the following page*

* Amounts reported as of Aug. 31, 2007, unless otherwise indicated in Note 19.

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# Combining Statement of Net Assets – Component Units (continued)

August 31, 2007 (Amounts in Thousands)*

| | Texas Health Reinsurance System | Texas Health Insurance Risk Pool | Texas State Affordable Housing Corporation | Totals |
|---|---|---|---|---|
| **ASSETS** | | | | |
| Current Assets: | | | | |
| Cash and Cash Equivalents | $ 3,949 | $ 4,450 | $ 1,505 | $ 145,656 |
| Short-Term Investments | | 72,716 | 4,627 | 844,964 |
| Restricted: | | | | |
| Cash and Cash Equivalents | | | 2,581 | 2,581 |
| Short-Term Investments | | | 80,776 | 80,776 |
| Loans and Contracts | | | 80 | 80 |
| Receivables: | | | | |
| Federal | | | | 21,985 |
| Other Intergovernmental | | | | 1,325 |
| Accounts | | 738 | 352 | 10,281 |
| Interest and Dividends | | | 754 | 6,563 |
| Other | 154 | | | 325 |
| Due From Primary Government | | | | 348 |
| Inventories | | | | 848 |
| Prepaid Items | | | 22 | 1,377 |
| Loans and Contracts | | | | 10,598 |
| Other Current Assets | | | | 4,134 |
| Total Current Assets | 4,103 | 77,904 | 90,697 | 1,131,841 |
| Noncurrent Assets: | | | | |
| Restricted: | | | | |
| Cash and Cash Equivalents | | | 171 | 171 |
| Investments | | | 170,305 | 170,305 |
| Loans and Contracts | | | 3,234 | 3,234 |
| Loans and Contracts | | | | 50,866 |
| Investments | | | | 15,581 |
| Other Receivables | | | | 3,958 |
| Capital Assets: | | | | |
| Nondepreciable | | | | 4,120 |
| Depreciable | | 36 | 230 | 95,328 |
| Accumulated Depreciation | | (25) | (198) | (46,856) |
| Other Noncurrent Assets | | 5 | 5,332 | 7,262 |
| Total Noncurrent Assets | 0 | 16 | 179,074 | 303,969 |
| Total Assets | 4,103 | 77,920 | 269,771 | 1,435,810 |

*Concluded on the following page*

STATE OF TEXAS

# Combining Statement of Net Assets – Component Units (concluded)

August 31, 2007 (Amounts in Thousands)*

| | Texas Health Reinsurance System | Texas Health Insurance Risk Pool | Texas State Affordable Housing Corporation | Totals |
|---|---|---|---|---|
| **LIABILITIES** | | | | |
| Current Liabilities: | | | | |
| Payables: | | | | |
| Accounts | $ 17 | $ 2,730 | $ 118 | $ 15,433 |
| Payroll | | | | 29 |
| Federal | | | | 28,755 |
| Interest | | | 2,199 | 2,557 |
| Due To Primary Government | | | | 440 |
| Deferred Revenue | | 29,336 | | 38,434 |
| Capital Lease Obligations | | | | 120 |
| Employees' Compensable Leave | | | | 3,202 |
| Notes and Loans Payable | | | 16 | 42,193 |
| Revenue Bonds Payable | | | 1,824 | 6,914 |
| Other Current Liabilities | 4,086 | 20,304 | 58 | 27,585 |
| Total Current Liabilities | 4,103 | 52,370 | 4,215 | 165,662 |
| Noncurrent Liabilities: | | | | |
| Capital Lease Obligations | | | | 30 |
| Employees' Compensable Leave | | | | 1,550 |
| Notes and Loans Payable | | | 2,054 | 125,825 |
| Liabilities Payable From Restricted Assets | | | | 229,091 |
| Revenue Bonds Payable | | | 259,334 | 369,408 |
| Other Noncurrent Liabilities | | 25,550 | 1,980 | 27,697 |
| Total Noncurrent Liabilities | 0 | 25,550 | 263,368 | 753,601 |
| Total Liabilities | 4,103 | 77,920 | 267,583 | 919,263 |
| **NET ASSETS** | | | | |
| Invested in Capital Assets, Net of Related Debt | | | 32 | 35,205 |
| Restricted for: | | | | |
| Education | | | | 77,272 |
| Unrestricted | | | 2,156 | 404,070 |
| Total Net Assets | $ 0 | $ 0 | $ 2,188 | $ 516,547 |

* Amounts reported as of Aug. 31, 2007, unless otherwise indicated in Note 19.

STATE OF TEXAS

# Combining Statement of Activities – Component Units

For the Fiscal Year Ended August 31, 2007 (Amounts in Thousands)*

| | State Bar of Texas | Texas Agricultural Finance Authority | Texas On-Site Wastewater Treatment Research Council | Texas Appraiser Licensing and Certification Board | Texas Prepaid Higher Education Tuition Scholarship Foundation, Inc. |
|---|---|---|---|---|---|
| **EXPENSES** | | | | | |
| Salaries and Wages | $ 13,590 | $ 64 | $ 1 | $ 288 | $ |
| Payroll Related Costs | 3,605 | 33 | | 75 | |
| Professional Fees and Services | 2,055 | 33 | 115 | 5 | |
| Travel | 2,296 | 1 | 14 | 12 | |
| Materials and Supplies | 759 | 2 | 7 | 17 | |
| Communication and Utilities | 1,470 | | 1 | 4 | |
| Repairs and Maintenance | 570 | | 3 | 1 | |
| Rentals and Leases | 1,245 | | | 35 | |
| Printing and Reproduction | 2,393 | | | 1 | |
| Claims and Judgments | 466 | | | | |
| Bad Debt Expense | | 50 | | | |
| Cost of Goods Sold | 790 | | | | |
| Depreciation and Amortization | 1,043 | | | | |
| Other Financing Fees | | 32 | | | |
| Public Assistance Payments | | | 145 | | |
| Direct Interest Expense | | 1,415 | | | |
| Interest Expense - Other | 13 | | | | |
| Other Expenses | 7,815 | 911 | 46 | 42 | |
| Total Expenses | 38,110 | 2,541 | 332 | 480 | 0 |
| **PROGRAM REVENUES** | | | | | |
| Charges for Services | 36,120 | 926 | | 28 | |
| Operating Grants and Contributions | 1,722 | | | | |
| Total Program Revenues | 37,842 | 926 | 0 | 28 | 0 |
| Net Program Revenues (Expenses) | (268) | (1,615) | (332) | (452) | 0 |
| **GENERAL REVENUES** | | | | | |
| Unrestricted Investment Earnings | | 1,435 | | | |
| Other Revenues | 3,970 | 641 | 327 | 484 | |
| Total General Revenues | 3,970 | 2,076 | 327 | 484 | 0 |
| Change in Net Assets | 3,702 | 461 | (5) | 32 | 0 |
| Net Assets, September 1, 2006 | 24,797 | (351) | 253 | (13) | 3 |
| Net Assets, August 31, 2007 | $ 28,499 | $ 110 | $ 248 | $ 19 | $ 3 |

* Amounts for the fiscal year ended Aug. 31, 2007, unless otherwise indicated in Note 19.

| Texas Guaranteed Student Loan Corporation | Texas Boll Weevil Eradication Foundation, Inc. | Texas Water Resources Finance Authority | Texas Small Business Industrial Development Corporation | Texas Economic Development Corporation | Texas Disaster Relief Fund | Surplus Lines Stamping Office of Texas |
|---|---|---|---|---|---|---|
| $ 39,745 | $ 30,050 | $ 61 | $ | $ 42 | $ | $ 1,121 |
| 10,349 | | 7 | | 3 | | 396 |
| 16,033 | 715 | 1 | 1 | 499 | 1 | 354 |
| 1,866 | 502 | | 1 | 144 | | 94 |
| 1,392 | 19,560 | 2 | | 303 | | 82 |
| 1,598 | 937 | 2 | | 4 | | 38 |
| 2,278 | 1,874 | | | | | 52 |
| 973 | 1,018 | | | 37 | | 199 |
| 551 | | | | 32 | | 19 |
| | | | | | | |
| | | | | | | |
| 2,683 | 3,469 | | | | | 491 |
| | 57 | | | | | |
| | | 5,061 | | | | |
| | | 1,379 | | | | |
| 510 | 5,334 | | 3,656 | | | |
| 7,096 | 15,562 | 20 | 557 | 69 | | 141 |
| 85,074 | 79,078 | 6,533 | 4,215 | 1,133 | 1 | 2,987 |
| | | | | | | |
| 1,614 | 59,703 | | | 19 | | 3,595 |
| 183,260 | 25,605 | 4,515 | 199 | 1,571 | 26 | 353 |
| 184,874 | 85,308 | 4,515 | 199 | 1,590 | 26 | 3,948 |
| 99,800 | 6,230 | (2,018) | (4,016) | 457 | 25 | 961 |
| | | | | | | |
| 6,134 | 2,365 | | 4,357 | 78 | | |
| 5 | 395 | | 105 | | | |
| 6,139 | 2,760 | 0 | 4,462 | 78 | 0 | 0 |
| | | | | | | |
| 105,939 | 8,990 | (2,018) | 446 | 535 | 25 | 961 |
| | | | | | | |
| 345,774 | (42,640) | 54,965 | 647 | 1,115 | 1,298 | 9,443 |
| | | | | | | |
| $451,713 | $ (33,650) | $ 52,947 | $ 1,093 | $ 1,650 | $ 1,323 | $ 10,404 |

*Concluded on the following page*

STATE OF TEXAS

# Combining Statement of Activities – Component Units (concluded)

For the Fiscal Year Ended August 31, 2007 (Amounts in Thousands)*

| | Texas Health Reinsurance System | Texas Health Insurance Risk Pool | Texas State Affordable Housing Corporation | Totals |
|---|---|---|---|---|
| **EXPENSES** | | | | |
| Salaries and Wages | $ | $ 279 | $ 1,003 | $ 86,244 |
| Payroll Related Costs | | | | 14,468 |
| Professional Fees and Services | | 16,292 | 237 | 36,341 |
| Travel | | 2 | 66 | 4,998 |
| Materials and Supplies | | 27 | | 22,151 |
| Communication and Utilities | | | | 4,054 |
| Repairs and Maintenance | | | | 4,778 |
| Rentals and Leases | | 65 | 130 | 3,702 |
| Printing and Reproduction | | | | 2,996 |
| Claims and Judgments | | | | 466 |
| Bad Debt Expense | | | | 50 |
| Cost of Goods Sold | | | | 790 |
| Depreciation and Amortization | | 5 | 217 | 7,908 |
| Other Financing Fees | | | | 89 |
| Public Assistance Payments | | | | 5,206 |
| Direct Interest Expense | | | | 2,794 |
| Interest Expense - Other | | | 9,898 | 19,411 |
| Other Expenses | 621 | 248,605 | 4,997 | 286,482 |
| Total Expenses | 621 | 265,275 | 16,548 | 502,928 |
| **PROGRAM REVENUES** | | | | |
| Charges for Services | 475 | 259,547 | 2,867 | 364,894 |
| Operating Grants and Contributions | 146 | 5,728 | 9,503 | 232,628 |
| Total Program Revenues | 621 | 265,275 | 12,370 | 597,522 |
| Net Program Revenues (Expenses) | 0 | 0 | (4,178) | 94,594 |
| **GENERAL REVENUES** | | | | |
| Unrestricted Investment Earnings | | | | 14,369 |
| Other Revenues | | | 56 | 5,983 |
| Total General Revenues | 0 | 0 | 56 | 20,352 |
| Change in Net Assets | 0 | 0 | (4,122) | 114,946 |
| Net Assets, September 1, 2006 | | | 6,310 | 401,601 |
| Net Assets, August 31, 2007 | $ 0 | $ 0 | $ 2,188 | $516,547 |

* Amounts for the fiscal year ended Aug. 31, 2007, unless otherwise indicated in Note 19.

# Statistical Section

# State of Texas
# Index for Statistical Section

This section presents detailed information as a context for understanding what the information in the financial statements, note disclosures, required supplementary information and supplementary information says about the state's overall financial health.

**Contents** **Pages**


**Financial Trends Information** . . . . . 227 – 231
These schedules contain trend information intended to help the reader understand how the state's financial position has changed over time.

**Revenue Capacity Information** . . . . . 232 – 234
These schedules contain information intended to help the reader assess the state's most significant revenue source, state tax collections.

**Debt Capacity Information** . . . . . 235 – 238
These schedules present information intended to assist users in understanding and assessing the state's current levels of outstanding debt and the ability to issue additional debt.

**Demographic and Economic Information** . . . . . 239 – 240
These schedules provide demographic and economic indicators intended to help the reader understand the socioeconomic environment within which the state's financial activities take place.

**Operating Information** . . . . . 241 – 243
These schedules provide contextual information about the state's operations and resources intended to assist readers in using financial statement information to understand and assess the state's economic condition.


Sources: Unless otherwise noted, the information in these schedules is derived from the Comprehensive Annual Financial Report databases for the relevant years. GASB 34 and 35 were implemented in 2002; schedules presenting government-wide information include information beginning in that year.

STATE OF TEXAS

## Statistical Section – Financial Trends

# Net Assets by Component

### Last Six Fiscal Years*

(Amounts in Millions)

| | 2002 | 2003 | 2004 |
|---|---|---|---|
| **GOVERNMENTAL ACTIVITIES** | | | |
| Invested in Capital Assets, Net of Related Debt | $ 47,322 | $ 49,254 | $ 51,407 |
| Restricted | 20,089 | 20,846 | 22,213 |
| Unrestricted | 2,065 | (28) | 541 |
| Total Governmental Activities Net Assets | 69,476 | 70,072 | 74,161 |
| **BUSINESS-TYPE ACTIVITIES** | | | |
| Invested in Capital Assets, Net of Related Debt | 5,142 | 5,737 | 6,464 |
| Restricted | 14,413 | 15,168 | 17,628 |
| Unrestricted | 5,841 | 6,167 | 5,805 |
| Total Business-Type Activities Net Assets | 25,396 | 27,072 | 29,897 |
| **PRIMARY GOVERNMENT** | | | |
| Invested in Capital Assets, Net of Related Debt | 52,464 | 54,991 | 57,871 |
| Restricted | 34,502 | 36,014 | 39,841 |
| Unrestricted | 7,906 | 6,139 | 6,346 |
| Total Primary Government Net Assets | $ 94,872 | $ 97,144 | $ 104,058 |

| | 2005 | 2006 | 2007 |
|---|---|---|---|
| **GOVERNMENTAL ACTIVITIES** | | | |
| Invested in Capital Assets, Net of Related Debt | $ 53,815 | $ 55,473 | $ 56,438 |
| Restricted | 24,110 | 25,993 | 29,347 |
| Unrestricted | 3,753 | 8,696 | 12,565 |
| Total Governmental Activities Net Assets | 81,678 | 90,162 | 98,350 |
| **BUSINESS-TYPE ACTIVITIES** | | | |
| Invested in Capital Assets, Net of Related Debt | 6,253 | 6,871 | 7,343 |
| Restricted | 20,581 | 22,812 | 25,815 |
| Unrestricted | 7,076 | 8,056 | 9,741 |
| Total Business-Type Activities Net Assets | 33,910 | 37,739 | 42,899 |
| **PRIMARY GOVERNMENT** | | | |
| Invested in Capital Assets, Net of Related Debt | 60,068 | 62,344 | 63,781 |
| Restricted | 44,691 | 48,805 | 55,162 |
| Unrestricted | 10,829 | 16,752 | 22,306 |
| Total Primary Government Net Assets | $ 115,588 | $ 127,901 | $ 141,249 |

* Due to the changes in the state's fund structure initiated when GASB Statements No. 34 and No. 35 were implemented, the net assets information is available only from 2002.

Source: state of Texas financial statements 2002-07

STATE OF TEXAS

## Statistical Section – Financial Trends

# Changes in Net Assets

### Last Six Fiscal Years*

(Amounts in Thousands)

| | 2002 | 2003 | 2004 | 2005 | 2006 | 2007 |
|---|---|---|---|---|---|---|
| **GOVERNMENTAL ACTIVITIES:** | | | | | | |
| **Expenses** | | | | | | |
| General Government | $ 1,947,049 | $ 2,026,241 | $ 2,234,369 | $ 2,206,793 | $ 2,681,117 | $ 2,555,309 |
| Education | 15,831,226 | 15,935,961 | 16,250,938 | 16,293,851 | 18,025,550 | 21,313,526 |
| Employee Benefits | 14,757 | 22,644 | 60,536 | 50,544 | 56,718 | 61,171 |
| Teacher Retirement Benefits | 1,201,886 | 2,435,727 | 2,269,667 | 2,083,530 | 1,932,325 | 2,017,000 |
| Health and Human Services | 22,817,118 | 24,742,714 | 25,060,588 | 27,302,426 | 28,808,315 | 30,886,484 |
| Public Safety and Corrections | 4,170,817 | 4,207,856 | 4,030,120 | 4,086,450 | 5,084,923 | 5,035,761 |
| Transportation | 3,576,274 | 3,562,159 | 3,476,342 | 3,766,301 | 4,452,154 | 4,252,129 |
| Natural Resources and Recreation | 736,111 | 835,139 | 864,508 | 1,070,481 | 961,178 | 1,217,201 |
| Regulatory Services | 273,023 | 324,567 | 375,951 | 349,420 | 282,067 | 314,266 |
| Indirect Interest on Long-Term Debt | 403,784 | 366,847 | 338,693 | 417,854 | 54,121 | 229,354 |
| Total Expenses | 50,972,045 | 54,459,855 | 54,961,712 | 57,627,650 | 62,338,468 | 67,882,201 |
| **Program Revenues** | | | | | | |
| **Charges for Services:** | | | | | | |
| General Government | 1,378,004 | 1,378,735 | 1,695,987 | 802,588 | 1,199,924 | 1,141,278 |
| Education | 236,776 | 485,676 | 520,621 | 594,702 | 626,224 | 584,971 |
| Employee Benefits | 383 | 112 | 171 | 97 | 120 | 116 |
| Teacher Retirement Benefits | | | | 10 | 93,694 | 26,661 |
| Health and Human Services | 710,167 | 821,773 | 838,377 | 1,124,402 | 1,177,825 | 2,059,789 |
| Public Safety and Corrections | 144,120 | 148,420 | 164,959 | 463,097 | 441,803 | 823,602 |
| Transportation | 988,612 | 974,627 | 1,016,809 | 1,342,073 | 1,373,339 | 1,530,669 |
| Natural Resources and Recreation | 453,990 | 437,834 | 473,608 | 716,981 | 570,872 | 714,687 |
| Regulatory Services | 63,986 | 92,875 | 212,919 | 534,469 | 596,705 | 604,199 |
| **Operating Grants and Contributions** | 17,563,832 | 22,801,211 | 24,501,850 | 26,667,982 | 28,979,226 | 29,995,409 |
| **Capital Grants and Contributions** | 2,191,470 | 2,570,634 | 2,773,764 | 3,253,051 | 2,803,006 | 1,823,686 |
| Total Program Rrevenues | 23,731,340 | 29,711,897 | 32,199,065 | 35,499,452 | 37,862,738 | 39,305,067 |
| Total Governmental Activities Net Program (Expense) | (27,240,705) | (24,747,958) | (22,762,647) | (22,128,198) | (24,475,730) | (28,577,134) |
| **General Revenues** | | | | | | |
| Taxes: | | | | | | |
| Sales and Use | 14,249,422 | 14,349,758 | 15,564,085 | 16,260,689 | 18,475,176 | 20,230,164 |
| Motor Vehicle and Manufactured Housing | 2,891,742 | 2,795,211 | 2,665,258 | 2,897,031 | 3,046,856 | 3,338,498 |
| Motor Fuels | 2,687,798 | 2,790,936 | 2,931,753 | 2,915,680 | 3,053,476 | 3,149,043 |
| Franchise | 1,999,005 | 1,532,820 | 1,657,141 | 2,203,578 | 2,632,780 | 3,273,050 |
| Oil and Natural Gas Production | 640,615 | 1,531,275 | 1,918,989 | 2,409,276 | 3,441,638 | 2,692,032 |
| Insurance Occupation | 973,279 | 1,179,553 | 1,192,829 | 1,213,627 | 1,238,846 | 1,368,340 |
| Cigarette and Tobacco | 536,464 | 583,159 | 540,404 | 596,569 | 547,000 | 1,325,712 |
| Other | 1,454,357 | 1,405,325 | 1,426,026 | 1,435,701 | 1,558,073 | 1,694,750 |
| Unrestricted Investment Earnings | 383,608 | 239,198 | 211,239 | 327,516 | 760,207 | 941,938 |
| Federal Jobs and Growth Tax Relief Funds | | 354,535 | 354,535 | | | |
| Settlement of Claims | 512,579 | 563,196 | 523,518 | 885,975 | 583,787 | 538,836 |
| Gain on Sale of Capital Assets | | 6,359 | 31,189 | 8,461 | 2,762 | 3,942 |
| Other General Revenues | 618,981 | 787,866 | 723,157 | 822,652 | 1,071,679 | 1,627,330 |
| **Capital Contributions** | | 600 | 944 | 107 | 1,449 | 309 |
| **Transfers** | (3,171,399) | (3,069,447) | (2,867,137) | (2,966,197) | (3,513,639) | (3,383,910) |
| Total General Revenues, Contributions and Transfers | 23,776,451 | 25,050,344 | 26,873,930 | 29,010,665 | 32,900,090 | 36,800,034 |
| Change in Net Assets – Governmental Activities | (3,464,254) | 302,386 | 4,111,283 | 6,882,467 | 8,424,360 | 8,222,900 |

*Concluded on the following page*

* The state did not begin reporting government-wide financial statements until it implemented GASB Statements No. 34 and No. 35 in 2002.

Source: state of Texas financial statements 2002-07

STATE OF TEXAS

## Statistical Section – Financial Trends

# Changes in Net Assets (concluded)

### Last Six Fiscal Years*

(Amounts in Thousands)

| | 2002 | 2003 | 2004 | 2005 | 2006 | 2007 |
|---|---|---|---|---|---|---|
| **BUSINESS-TYPE ACTIVITIES:** | | | | | | |
| **Expenses** | | | | | | |
| General Government | $ 246,183 | $ 235,098 | $ 187,064 | $ 142,142 | $ 162,499 | $ 186,628 |
| Education | 12,584,976 | 13,340,397 | 13,538,233 | 14,716,405 | 15,982,582 | 17,165,602 |
| Employee Benefits | | 517,912 | 615,692 | | | |
| Teacher Retirement Benefits | | | | 761,240 | 813,133 | 909,845 |
| Health and Human Services | 2,712,361 | 2,964,169 | 2,203,096 | 1,540,459 | 1,253,431 | 1,204,609 |
| Public Safety and Corrections | 69,235 | 68,419 | 68,828 | 71,308 | 73,775 | 75,305 |
| Transportation | 13,011 | 16,937 | 22,725 | 346 | 16,339 | 125,910 |
| Natural Resources and Recreation | 149,767 | 157,902 | 146,815 | 264,707 | 284,241 | 283,653 |
| Regulatory Services | 2,096 | | | | | |
| Lottery | 2,034,639 | 2,163,670 | 2,426,019 | 2,594,241 | 2,687,084 | 2,691,210 |
| Total Expenses | 17,812,268 | 19,464,504 | 19,208,472 | 20,090,848 | 21,273,084 | 22,642,762 |
| **Program Revenues** | | | | | | |
| **Charges for Services:** | | | | | | |
| General Government | 32,475 | 50,669 | 44,166 | 27,947 | 37,245 | 42,713 |
| Education | 5,108,647 | 5,549,390 | 5,845,956 | 6,662,679 | 7,284,371 | 8,268,639 |
| Employee Benefits | | 584,709 | 758,255 | | | |
| Teacher Retirement Benefits | | | | 823,910 | 861,648 | 939,879 |
| Health and Human Services | 1,129,885 | 1,603,241 | 1,783,807 | 1,963,403 | 1,862,804 | 1,665,242 |
| Public Safety and Corrections | 67,809 | 71,694 | 75,094 | 77,521 | 79,032 | 82,779 |
| Transportation | | | 39,162 | 14 | 13 | 16,757 |
| Natural Resources and Recreation | 2,377 | 3,002 | 3,911 | 22,106 | 33,716 | 41,034 |
| Lottery | 2,967,271 | 3,131,532 | 3,488,941 | 3,663,414 | 3,775,491 | 3,774,948 |
| **Operating Grants and Contributions** | 3,299,297 | 6,244,537 | 6,356,243 | 8,086,139 | 7,200,099 | 9,001,427 |
| **Capital Grants and Contributions** | 51,930 | 162,991 | 272,997 | 211,726 | 155,541 | 197,731 |
| Total Program Revenues | 12,659,691 | 17,401,765 | 18,668,532 | 21,538,859 | 21,289,960 | 24,031,149 |
| Total Business-Type Activities Net Program Revenue (Expense) | (5,152,577) | (2,062,739) | (539,940) | 1,448,011 | 16,876 | 1,388,387 |
| **General Revenues** | | | | | | |
| Unrestricted Investment Earnings | 108,831 | 28,020 | 193,347 | 68,423 | 55,150 | 245,977 |
| Settlement of Claims | 2,579 | 5 | 4 | 20 | 94 | 283 |
| Gain on Sale of Capital Assets | 750 | | | 6,431 | 276 | 13,363 |
| Other General Revenue | 301,020 | 329,235 | 194,474 | 126,957 | 91,017 | 266,722 |
| **Capital Contributions** | 112,088 | 1,318 | 2,715 | 133 | 3,874 | 1,364 |
| **Contributions to Permanent and Term Endowments** | 101,473 | 235,997 | 235,182 | 145,919 | 123,939 | 184,193 |
| **Special Items** | | | | | (38,898) | (318,813) |
| **Extraordinary Items** | 603,679 | 36,532 | (13,401) | | | |
| **Transfers** | 3,171,399 | 3,069,447 | 2,867,137 | 2,966,197 | 3,513,639 | 3,383,910 |
| Total General Revenues, Contributions, Special Items, Extraordinary Items and Transfers | 4,401,819 | 3,700,554 | 3,479,458 | 3,314,080 | 3,749,091 | 3,776,999 |
| Change in Net Assets – Business-Type Activities | (750,758) | 1,637,815 | 2,939,518 | 4,762,091 | 3,765,967 | 5,165,386 |
| Change in Net Assets – Primary Government | $ (4,215,012) | $ 1,940,201 | $ 7,050,801 | $ 11,644,558 | $ 12,190,327 | $ 13,388,286 |

STATE OF TEXAS

## Statistical Section – Financial Trends

# Fund Balances – Governmental Funds

### Last Six Fiscal Years*

(Amounts in Millions)

| | 2002 | 2003 | 2004 | 2005 | 2006 | 2007 |
|---|---|---|---|---|---|---|
| **GENERAL FUND** | | | | | | |
| Reserved | $ 1,430 | $ 1,042 | $ 1,185 | $ 1,752 | $ 1,648 | $ 2,138 |
| Unreserved | (369) | (2,326) | (1,562) | 286 | 5,673 | 8,698 |
| Total General Fund | $ 1,061 | $ (1,284) | $ (377) | $ 2,038 | $ 7,321 | $ 10,836 |
| **ALL OTHER GOVERNMENTAL FUNDS** | | | | | | |
| Reserved | $ 19,187 | $ 20,485 | $ 21,850 | $ 24,275 | $ 25,999 | $ 29,054 |
| Unreserved | | | | | | |
| Special Revenue | 1,669 | 1,256 | 1,309 | 1,460 | 910 | 1,847 |
| Capital Projects | 13 | 14 | 15 | | 7 | (11) |
| Permanent | 429 | 458 | 492 | 546 | 575 | 632 |
| Total All Other Governmental Funds | $ 21,298 | $ 22,213 | $ 23,666 | $ 26,281 | $ 27,491 | $ 31,522 |

* Due to the changes in the state's fund structure initiated when GASB Statements No. 34 and No. 35 were implemented, information for fund balances is available only for the line-items presented beginning in 2002

Source: state of Texas financial statements 2002-07

STATE OF TEXAS

## Statistical Section – Financial Trends

# Changes in Fund Balances – Governmental Funds

### Last Ten Fiscal Years*

(Amounts in Millions)

| | 1998 | 1999 | 2000 | 2001 | 2002 | 2003 | 2004 | 2005 | 2006 | 2007 |
|---|---|---|---|---|---|---|---|---|---|---|
| **REVENUES BY SOURCE** | | | | | | | | | | |
| Tax Collections | $ 22,590 | $ 23,499 | $ 25,226 | $ 27,045 | $ 25,123 | $ 25,939 | $ 27,976 | $ 29,830 | $ 33,867 | $ 36,670 |
| Federal Funds | 14,209 | 15,316 | 16,170 | 17,319 | 20,307 | 23,017 | 24,382 | 25,851 | 28,212 | 26,967 |
| Licenses, Fees and Permits | 2,741 | 2,826 | 2,915 | 2,960 | 2,815 | 2,921 | 3,332 | 3,590 | 4,011 | 4,324 |
| Interest and Other Investment Income | 1,250 | 1,328 | 1,578 | 1,705 | (815) | 2,118 | 2,435 | 3,317 | 3,218 | 4,574 |
| Land Income | 15 | 10 | 11 | 46 | 179 | 298 | 482 | 544 | 462 | 422 |
| Settlement of Claims | 18 | 1,118 | 324 | 403 | 513 | 563 | 523 | 883 | 583 | 539 |
| Sales of Goods and Services | 610 | 664 | 578 | 689 | 962 | 1,131 | 1,109 | 1,445 | 1,503 | 2,697 |
| Other Revenues | 888 | 1,374 | 1,227 | 1,451 | 1,273 | 1,464 | 1,754 | 1,918 | 2,159 | 2,730 |
| Total Revenues | 42,321 | 46,135 | 48,029 | 51,618 | 50,357 | 57,451 | 61,993 | 67,378 | 74,015 | 78,923 |
| **EXPENDITURES BY FUNCTION** | | | | | | | | | | |
| General Government | 1,496 | 1,673 | 1,798 | 1,902 | 1,846 | 1,961 | 2,191 | 2,151 | 2,530 | 2,415 |
| Education | 12,726 | 12,640 | 14,743 | 15,057 | 15,739 | 15,927 | 16,220 | 16,204 | 18,025 | 21,317 |
| Employee Benefits | 7 | 7 | 8 | 8 | 15 | 12 | 12 | 12 | 13 | 14 |
| Health and Human Services | 16,005 | 17,082 | 17,878 | 19,036 | 22,394 | 24,690 | 25,039 | 27,192 | 28,761 | 30,855 |
| Public Safety and Corrections | 3,136 | 3,332 | 3,554 | 3,812 | 4,037 | 4,067 | 3,887 | 3,952 | 4,939 | 4,897 |
| Transportation | 3,398 | 3,922 | 4,612 | 4,720 | 3,096 | 3,065 | 2,970 | 3,246 | 3,909 | 3,702 |
| Natural Resources and Recreation | 652 | 712 | 672 | 704 | 713 | 787 | 844 | 1,039 | 930 | 1,172 |
| Regulatory Services | 228 | 235 | 243 | 260 | 270 | 311 | 371 | 345 | 294 | 317 |
| Debt Service: | | | | | | | | | | |
| Principal | 338 | 344 | 372 | 346 | 287 | 367 | 211 | 306 | 393 | 437 |
| Interest | 831 | 531 | 599 | 761 | 339 | 360 | 335 | 375 | 238 | 370 |
| Other Financing Fees | | | | | | | | | 2 | 14 |
| Capital Outlay | 355 | 548 | 517 | 389 | 2,274 | 2,654 | 2,830 | 3,735 | 3,938 | 4,368 |
| Total Expenditures | 39,172 | 41,026 | 44,996 | 46,995 | 51,010 | 54,201 | 54,910 | 58,557 | 63,972 | 69,878 |
| Excess (Deficiency) of Revenues Over (Under) Expenditures | 3,149 | 5,109 | 3,033 | 4,623 | (653) | 3,250 | 7,083 | 8,821 | 10,043 | 9,045 |
| **OTHER FINANCING SOURCES (USES)** | | | | | | | | | | |
| Transfer In | 5,080 | 5,140 | 4,838 | 4,988 | 6,093 | 5,793 | 6,984 | 7,488 | 7,343 | 7,765 |
| Transfer Out | (8,066) | (9,975) | (8,802) | (9,070) | (10,870) | (10,937) | (11,842) | (12,248) | (12,433) | (12,887) |
| Bonds and Notes Issued | 881 | 534 | 919 | 464 | 232 | 383 | 87 | 1,242 | 1,440 | 3,471 |
| Bonds Issued for Advance Refunding | 445 | 241 | | | 8 | 164 | 58 | 208 | 72 | 249 |
| Payment to Escrow for Advance Refunding | (615) | (241) | | | (8) | (164) | (69) | (208) | (72) | (263) |
| Premiums (Discounts) on Bonds Issued ** | | | | | | | | | | 126 |
| Sale of Capital Assets | 49 | 20 | 16 | 19 | 80 | 21 | 50 | 37 | 17 | 29 |
| Increases in Obligations Under Capital Leases | 1 | 24 | 4 | 1 | | 4 | | | 3 | |
| Insurance Recoveries | | | | | | | | | 7 | 2 |
| Total Other Financing Sources (Uses) | (2,225) | (4,257) | (3,025) | (3,598) | (4,465) | (4,736) | (4,732) | (3,481) | (3,623) | (1,508) |
| **NET CHANGE IN FUND BALANCES** | $ 924 | $ 852 | $ 8 | $ 1,025 | $ (5,118) | $ (1,486) | $ 2,351 | $ 5,340 | $ 6,420 | $ 7,537 |
| **DEBT SERVICE AS A PERCENTAGE OF NONCAPITAL EXPENDITURES** | 3.0% | 2.2% | 2.2% | 2.4% | 1.3% | 1.4% | 1.0% | 1.2% | 1.1% | 1.3% |

* This table is comprised of the following funds: general, special revenue, debt service, capital projects and permanent.

** Premiums (discounts) on bonds issued were combined with bonds and notes issued in years prior to 2007.

Source: state of Texas financial statements 1998-2007.

STATE OF TEXAS

## Statistical Section – Revenue Capacity

# Taxable Sales by Industry

For the Fiscal Years 1997 through 2006* (Amounts in Millions)

| NAICS** Industry | 2002 | 2003 | 2004 | 2005 | 2006 |
|---|---|---|---|---|---|
| Agriculture, Forestry, Fishing, Hunting | $ 127 | $ 108 | $ 105 | $ 137 | $ 149 |
| Mining, Quarrying, Oil & Gas Extraction | 2,862 | 3,342 | 3,897 | 5,329 | 8,143 |
| Utilities | 4,801 | 5,282 | 5,485 | 7,543 | 9,022 |
| Construction | 6,857 | 7,003 | 8,071 | 9,271 | 11,583 |
| Manufacturing | 17,653 | 16,319 | 17,543 | 20,733 | 24,336 |
| Wholesale Trade | 14,919 | 17,324 | 19,000 | 21,634 | 25,044 |
| Retail Trade | 99,690 | 102,215 | 108,078 | 116,307 | 127,389 |
| Transportation, Warehousing | 830 | 1,208 | 1,390 | 1,317 | 1,805 |
| Information | 23,884 | 23,900 | 24,804 | 26,579 | 29,538 |
| Finance, Insurance | 1,955 | 1,894 | 1,819 | 1,913 | 2,099 |
| Real Estate, Rental, Leasing | 5,766 | 5,569 | 5,820 | 6,832 | 8,102 |
| Professional, Scientific, Technical Serv. | 5,147 | 4,812 | 5,181 | 6,282 | 7,069 |
| Management of Companies, Enterprises | 1,649 | 1,930 | 1,972 | 2,008 | 802 |
| Admin Supt Waste Mgmt Remediation Serv. | 6,827 | 7,050 | 7,554 | 7,995 | 8,692 |
| Educational Services | 281 | 294 | 341 | 379 | 406 |
| Health Care, Social Assistance | 422 | 513 | 547 | 600 | 623 |
| Arts, Entertainment, Recreation | 2,316 | 2,710 | 2,885 | 2,875 | 3,019 |
| Accomodation, Food Services | 22,931 | 23,653 | 25,438 | 27,313 | 29,750 |
| Other Services (except Public Admin) | 5,892 | 6,083 | 6,295 | 6,824 | 7,452 |
| Public Administration | 1,881 | 1,692 | 2,072 | 1,565 | 1,474 |
| Nonclassifiable | 5 | 9 | 8 | 8 | 6 |
| Other | 3,263 | 1,655 | 648 | 221 | 98 |
| Total Taxable Sales | $229,958 | $234,565 | $248,953 | $273,665 | $306,601 |
| Direct Sales Tax Rate | 6.25% | 6.25% | 6.25% | 6.25% | 6.25% |

| SIC*** Industry | 1997 | 1998 | 1999 | 2000 | 2001 |
|---|---|---|---|---|---|
| Agriculture, Forestry, and Fishing | $ 944 | $ 1,020 | $ 1,182 | $ 1,294 | $ 1,367 |
| Mining, Natural Resources | 1,999 | 1,754 | 1,475 | 2,030 | 2,815 |
| Construction | 5,485 | 6,184 | 6,506 | 7,370 | 7,422 |
| Manufacturing | 15,423 | 16,413 | 15,975 | 17,356 | 16,141 |
| Transportation, Communications, Utilities | 21,523 | 23,284 | 25,083 | 27,652 | 28,415 |
| Wholesale Trade | 16,309 | 18,017 | 18,585 | 19,609 | 19,172 |
| Retail Trade | 100,924 | 108,661 | 116,118 | 122,849 | 127,145 |
| Finance , Insurance, and Real Estate | 779 | 849 | 925 | 1,062 | 1,226 |
| Services | 22,491 | 25,184 | 27,263 | 29,773 | 29,742 |
| Public Administration | 435 | 450 | 455 | 500 | 513 |
| Nonclassifiable Establishments | 64 | 60 | 59 | 48 | 35 |
| Other | 546 | 603 | 476 | 497 | 838 |
| Total Taxable Sales | $186,922 | $202,479 | $214,102 | $230,040 | $234,831 |
| Direct Sales Tax Rate | 6.25% | 6.25% | 6.25% | 6.25% | 6.25% |

* Fiscal 2007 data is not available until mid-year of the the following fiscal year.

** North American Industry Classification System -available only from 2002-06

*** Standard Industrial Classification System

Note: The amount of sales tax revenue should not be calculated from the table as there are numerous adjustments, allocations and refunds to arrive at actual taxable revenue.

Source: Texas Comptroller of Public Accounts, "Quarterly Sales Tax Reports."

STATE OF TEXAS

Statistical Section – Revenue Capacity

# State Tax Collections and Retail Sales

Last Ten Years

(Amounts in Millions, Except Per Capita State Tax Collections and Percentage Data)

## State Tax Collections Per Capita, 1998-2007*

| | 1998 | 1999 | 2000 | 2001 | 2002 | 2003 | 2004 | 2005 | 2006 | 2007 |
|---|---|---|---|---|---|---|---|---|---|---|
| Tax Collections | $ 22,590 | $ 23,499 | $ 25,226 | $ 27,045 | $ 25,123 | $ 25,939 | $ 27,976 | $ 29,830 | $ 33,867 | $ 36,670 |
| Percentage Tax Collection Change From Prior Year | 7.2% | 4.0% | 7.3% | 7.2% | (7.1)% | 3.2% | 7.9% | 6.6% | 13.5% | 8.3% |
| Resident Population | 20.2 | 20.6 | 21.0 | 21.4 | 21.8 | 22.1 | 22.5 | 22.9 | 23.5 | 23.9 |
| Percentage Population Change From Prior Year | 2.5% | 2.0% | 1.9% | 1.9% | 1.9% | 1.4% | 1.8% | 1.8% | 2.6% | 1.7% |
| State Tax Collections Per Capita | $ 1,121 | $ 1,143 | $ 1,204 | $ 1,266 | $ 1,155 | $ 1,172 | $ 1,242 | $ 1,301 | $ 1,441 | $ 1,534 |

* This table is comprised of the following funds: general, special revenue, debt service and capital projects.

Source: Tax collections figures taken from the 1998-2007 state of Texas financial statements.
Resident population figures are from the U.S. Department of Commerce, Bureau of Census and Bureau of Economic Analysis and have been revised from prior years due to changes in methodology, inflation factors, price indicators and revisions to interim census figures.
2007 numbers include growth rates from quarterly economic forecast models of Global Insight, Inc. and the Texas Comptroller.

## Total Retail Sales 1998-2007

(Amounts in Millions)

| Year | Retail Sales | Percent Change |
|---|---|---|
| 1998 | $ 244,911 | 5.2% |
| 1999 | $265,073 | 8.2% |
| 2000 | $298,614 | 12.7% |
| 2001 | $307,070 | 2.8% |
| 2002* | $288,640 | (3.6)% |
| 2003 | $303,828 | 5.3% |
| 2004 | $332,170 | 9.3% |
| 2005 | $341,383 | 2.8% |
| 2006 | $364,864 | 6.9% |
| 2007** | $ 88,170 | 8.2% |

* Retail sales are classified on the basis of the North American Industrial Classification System (NAICS) for 2002-07, as opposed to Standard Industrial Codes (SICs) before that. The percentage change in 2002 is based on SIC data for both 2001-02.

** First quarter of 2007 and the percentage change over the first quarter of 2006.

Source: Texas Comptroller of Public Accounts.

Due to confidentiality issues, the names of the ten largest revenue payers are not available. This table provides alternative information regarding the source of the state's major tax revenue.

STATE OF TEXAS

## Statistical Section – Revenue Capacity

# Texas Gross State Product by Industry

### Last Ten Years

(Amounts in Millions of Dollars)

| NAICS* Industry | 1998 | 1999 | 2000 | 2001 | 2002 | 2003 | 2004 | 2005 | 2006 | 2007 |
|---|---|---|---|---|---|---|---|---|---|---|
| Agriculture, Forestry and Fishing | $ 6,052 | $ 6,752 | $ 6,470 | $ 6,394 | $ 7,457 | $ 8,094 | $ 9,792 | $ 8,472 | $ 8,345 | $ 8,533 |
| % Change | (9.6) | 11.6 | (4.2) | (1.2) | 16.6 | 8.5 | 21.0 | (13.5) | (1.5) | 2.3 |
| Mining and Natural Resources | 23,237 | 27,652 | 45,182 | 44,072 | 39,219 | 57,917 | 68,984 | 97,715 | 100,730 | 110,001 |
| % Change | (31.8) | 19.0 | 63.4 | (2.5) | (11.0) | 47.7 | 19.1 | 41.6 | 3.1 | 9.2 |
| Construction | 29,568 | 32,836 | 36,882 | 40,259 | 41,871 | 43,475 | 45,079 | 51,587 | 57,849 | 62,862 |
| % Change | 16.7 | 11.1 | 12.3 | 9.2 | 4.0 | 3.8 | 3.7 | 14.4 | 12.1 | 8.7 |
| Manufacturing | 97,929 | 91,601 | 92,981 | 92,273 | 94,462 | 93,158 | 118,839 | 127,437 | 139,794 | 148,086 |
| % Change | 6.0 | (6.5) | 1.5 | (0.8) | 2.4 | (1.4) | 27.6 | 7.2 | 9.7 | 5.9 |
| Trade, Transportation and Utilities | 135,536 | 146,595 | 155,785 | 160,789 | 164,723 | 170,757 | 179,824 | 192,504 | 206,038 | 216,811 |
| % Change | 7.0 | 8.2 | 6.3 | 3.2 | 2.4 | 3.7 | 5.3 | 7.1 | 7.0 | 5.2 |
| Information | 30,603 | 33,295 | 35,865 | 36,992 | 36,531 | 36,040 | 38,808 | 40,274 | 42,523 | 44,721 |
| % Change | 11.8 | 8.8 | 7.7 | 3.1 | (1.2) | (1.3) | 7.7 | 3.8 | 5.6 | 5.2 |
| Financial Activities | 99,250 | 107,929 | 117,200 | 125,928 | 128,219 | 133,439 | 139,751 | 145,283 | 160,100 | 170,683 |
| % Change | 7.1 | 8.7 | 8.6 | 7.4 | 1.8 | 4.1 | 4.7 | 4.0 | 10.2 | 6.6 |
| Professional and Business Services | 62,928 | 69,387 | 73,208 | 82,195 | 83,937 | 88,719 | 95,563 | 105,832 | 117,211 | 127,370 |
| % Change | 11.6 | 10.3 | 5.5 | 12.3 | 2.1 | 5.7 | 7.7 | 10.7 | 10.8 | 8.7 |
| Educational and Health Services | 37,182 | 39,357 | 42,359 | 46,797 | 51,380 | 54,761 | 59,042 | 63,174 | 67,225 | 70,676 |
| % Change | 4.7 | 5.8 | 7.6 | 10.5 | 9.8 | 6.6 | 7.8 | 7.0 | 6.4 | 5.1 |
| Leisure and Hospitality Services | 19,960 | 21,764 | 23,106 | 23,993 | 25,492 | 26,479 | 27,708 | 29,316 | 31,965 | 34,017 |
| % Change | 7.1 | 9.0 | 6.2 | 3.8 | 6.2 | 3.9 | 4.6 | 5.8 | 9.0 | 6.4 |
| Other Private Services | 15,922 | 16,576 | 17,603 | 18,106 | 18,679 | 19,644 | 19,914 | 20,695 | 21,988 | 22,990 |
| % Change | 8.5 | 4.1 | 6.2 | 2.9 | 3.2 | 5.2 | 1.4 | 3.9 | 6.2 | 4.6 |
| Government, including Schools | 71,044 | 75,249 | 80,590 | 84,448 | 91,512 | 96,326 | 101,102 | 107,057 | 112,947 | 117,918 |
| % Change | 2.8 | 5.9 | 7.1 | 4.8 | 8.4 | 5.3 | 5.0 | 5.9 | 5.5 | 4.4 |
| TOTAL | $ 629,211 | $ 668,993 | $ 727,231 | $ 762,246 | $ 783,482 | $ 828,809 | $ 904,406 | $ 989,346 | $ 1,066,715 | $ 1,134,668 |
| % Change | 5.0 | 6.3 | 8.7 | 4.8 | 2.8 | 5.8 | 9.1 | 9.4 | 7.8 | 6.4 |
| TOTAL (In 2000 Chained Dollars) | $ 666,590 | $ 699,101 | $ 727,229 | $ 745,325 | $ 760,588 | $ 770,975 | $ 808,088 | $ 831,785 | $ 867,863 | $ 896,505 |
| % Change | 6.2 | 4.9 | 4.0 | 2.5 | 2.0 | 1.4 | 4.8 | 2.9 | 4.3 | 3.3 |

* North American Industry Classification System.

BEA periodically does a five-year revision to its personal income and gross product data

Source: U. S. Bureau of Economic Analysis (BEA). BEA numbers for gross product and real gross product are subject to revision.

STATE OF TEXAS

## Statistical Section – Debt Capacity

# Legal Debt Margin Information

### Last Ten Fiscal Years

(Amounts in Thousands, Except Percentage Data)

| | 1998 | 1999 | 2000 | 2001 | 2002 |
|---|---|---|---|---|---|
| Debt Service Limit* | $1,082,169 | $1,162,163 | $1,213,667 | $1,265,625 | $ 1,308,045 |
| Total Net Debt Service Applicable to Limit | 521,518 | 511,259 | 492,915 | 484,448 | 580,012 |
| Legal Debt Service Margin | $ 560,651 | $ 650,904 | $ 720,752 | $ 781,177 | $ 728,033 |
| Total Net Debt Service Applicable to Limit as a Percentage of Debt Service Limit | 48.2% | 44.0% | 40.6% | 38.3% | 44.3% |

| | 2003 | 2004 | 2005 | 2006 | 2007 |
|---|---|---|---|---|---|
| Debt Service Limit* | $1,318,449 | $1,344,627 | $1,405,937 | $1,518,628 | $ 1,664,884 |
| Total Net Debt Service Applicable to Limit | 626,185 | 622,433 | 620,989 | 545,725 | 605,518 |
| Legal Debt Service Margin | $ 692,264 | $ 722,194 | $ 784,948 | $ 972,903 | $ 1,059,366 |
| Total Net Debt Service Applicable to the Limit as a Percentage of Debt Service Limit | 47.5% | 46.3% | 44.2% | 35.9% | 36.4% |

### Legal Debt Service Margin Calculation for Fiscal 2007

| | |
|---|---|
| Unrestricted General Revenue fiscal 2005 ** | $30,373,946 |
| Unrestricted General Revenue fiscal 2006 ** | 33,389,324 |
| Unrestricted General Revenue fiscal 2007 | 36,129,759 |
| Debt Service Limit* | 1,664,884 |
| Debt Service Applicable to Limit: | |
| Debt Service on Outstanding Debt Payable from GR | 439,466 |
| Plus: Estimated Debt Service on Authorized but Unissued Debt Payable From GR | 166,052 |
| Total Net Debt Service Applicable to Limit | 605,518 |
| Legal Debt Service Margin | $ 1,059,366 |

* Debt service limit – Under state law, the maximum annual debt service in any fiscal year on state debt payable from the general revenue fund may not exceed 5 percent of an amount equal to the average of the unrestricted general revenue fund revenues for the three preceding fiscal years.

** These amounts were restated from the prior year due to a fiscal 2007 change in methodology which shows restricted allocations and transfers in the year in which they occurred.

Source: Texas Bond Review Board.

STATE OF TEXAS

## Statistical Section – Debt Capacity

# Ratio of Outstanding Debt by Type

### Last Six Fiscal Years*

(Amounts in Millions, Except Percentage Data and Per Capita)

| | Governmental Activities | | | Business-Type Activities | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| Fiscal Year | General Obligation Bonds | Revenue Bonds | Notes and Loans | General Obligation Bonds | Revenue Bonds | Notes and Loans | Total Primary Government | Percentage of Personal Income | Per Capita |
| 2002 | $3,081 | $ 809 | $98 | $2,671 | $8,264 | $1,607 | $16,530 | 2.6% | 760 |
| 2003 | 3,185 | 739 | 103 | 2,599 | 9,277 | 1,889 | 17,792 | 2.7% | 804 |
| 2004 | 3,116 | 679 | 116 | 2,719 | 10,844 | 1,920 | 19,394 | 2.8% | 861 |
| 2005 | 3,972 | 632 | 262 | 2,815 | 11,749 | 1,614 | 21,044 | 2.8% | 918 |
| 2006 | 4,479 | 1,152 | 331 | 2,739 | 12,378 | 1,741 | 22,820 | 2.8% | 971 |
| 2007 | 6,757 | 2,031 | 216 | 2,775 | 12,304 | 2,029 | 26,112 | 2.9% | 1,094 |

* Due to the changes in the state's fund structure initiated when GASB Statements No. 34 and No. 35 were implemented, the outstanding debt information is available only beginning in 2002.

Source: 2002-07 state of Texas financial statements.

STATE OF TEXAS

## Statistical Section – Debt Capacity

# Ratios of General Bonded Debt Outstanding

### Last Ten Fiscal Years*

(Amounts in Millions, Except Percentage Data and General Bonded Debt Per Capita)

| | 1998 | 1999 | 2000 | 2001 | 2002 | 2003 | 2004 | 2005 | 2006 | 2007 |
|---|---|---|---|---|---|---|---|---|---|---|
| Bonded Debt (General Obligation Bonds Only) | $5,000 | $4,920 | $5,143 | $5,271 | $5,756 | $5,784 | $5,835 | $6,787 | $7,218 | $9,532 |
| Percentage Bonded Debt Change From Prior Year | 1.4% | (1.6)% | 4.5% | 2.5% | 9.2% | 0.5% | 0.9% | 16.3% | 6.4% | 32.1% |
| Tax Collections | 22,590 | 23,499 | 25,226 | 27,045 | 25,123 | 25,939 | 27,976 | 29,830 | 33,867 | 36,670 |
| Percentage Bonded Debt to Tax Collections | 22.1% | 20.9% | 20.4% | 19.5% | 22.9% | 22.3% | 20.9% | 22.8% | 21.3% | 26.0% |
| Resident Population | 20.2 | 20.6 | 21.0 | 21.4 | 21.8 | 22.1 | 22.5 | 22.9 | 23.5 | 23.9 |
| General Bonded Debt Per Capita | $ 248 | $ 239 | $ 245 | $ 247 | $ 265 | $ 262 | $ 259 | $ 297 | $ 307 | $ 399 |

* Historical data may reflect a variety of changes in methodology, inflation factors, price indicators and revisions to interim census figures made by the U.S. Bureau of Economic Analysis.

Source: Bonded debt and tax collections amounts are taken from the 1998-2007 state of Texas financial statements. Tax Collections from 1998-2007 state of Texas financial statements. Resident population figures are from the U.S. Department of Commerce, Bureau of Census and Bureau of Economic Analysis and have been revised from prior years.

STATE OF TEXAS

## Statistical Section – Debt Capacity

# Pledged Revenue Bond Coverage

### Last Six Fiscal Years*

(Amounts in Thousands, Except Ratio Data)

| | 2002 | 2003 | 2004 | 2005 | 2006 | 2007 |
|---|---|---|---|---|---|---|
| **GOVERNMENTAL ACTIVITIES** | | | | | | |
| Pledged Revenue Bond Amount | $ 93,796 | $ 93,942 | $ 101,178 | $ 150,119 | $ 81,011 | $ 5,765,826 |
| Operating Expenditures | 2,257 | 11,772 | 2,525 | 15,540 | 1,452 | 6,881,279 |
| Net Available Revenue | $ 91,539 | $ 82,170 | $ 98,653 | $ 134,579 | $ 79,559 | $ (1,115,453) |
| Debt Service – | | | | | | |
| Principal | $ 70,230 | $ 74,106 | $ 77,058 | $ 84,087 | $ 86,056 | $ 104,077 |
| Interest | 41,996 | 37,478 | 33,314 | 26,115 | 25,764 | 66,822 |
| Total Debt Service | $ 112,226 | $ 111,584 | $ 110,372 | $ 110,202 | $ 111,820 | $ 170,899 |
| Coverage Ratio | 0.8 | 0.7 | 0.9 | 1.2 | 0.7 | (6.5) |
| **BUSINESS-TYPE ACTIVITIES** | | | | | | |
| Pledged Revenue Bond Amount | $7,236,922 | $6,401,630 | $7,049,189 | $8,369,686 | $9,088,841 | $ 9,869,477 |
| Operating Expenditures | 207,852 | 536,191 | 885,294 | 839,699 | 364,043 | 1,457,567 |
| Net Available Revenue | $7,029,070 | $5,865,439 | $6,163,895 | $7,529,987 | $8,724,798 | $ 8,411,910 |
| Debt Service – | | | | | | |
| Principal | $ 242,174 | $ 490,032 | $ 440,036 | $ 532,128 | $ 623,346 | $ 683,150 |
| Interest | 355,997 | 371,983 | 492,366 | 503,958 | 537,104 | 560,359 |
| Total Debt Service | $ 598,171 | $ 862,015 | $ 932,402 | $1,036,086 | $1,160,450 | $ 1,243,509 |
| Coverage Ratio | 11.8 | 6.8 | 6.6 | 7.3 | 7.5 | 6.8 |
| **COMPONENT UNITS** | | | | | | |
| Pledged Revenue Bond Amount | $ 25,863 | $ 17,246 | $ 28,675 | $ 13,524 | $ 13,704 | $ 13,034 |
| Operating Expenditures | 625 | 47 | 536 | 225 | 264 | 91 |
| Net Available Revenue | $ 25,238 | $ 17,199 | $ 28,139 | $ 13,299 | $ 13,440 | $ 12,943 |
| Debt Service – | | | | | | |
| Principal | $ 13,000 | $ 18,230 | $ 26,685 | $ 17,934 | $ 25,630 | $ 51,359 |
| Interest | 6,875 | 6,229 | 4,004 | 5,185 | 7,336 | 14,983 |
| Total Debt Service | $ 19,875 | $ 24,459 | $ 30,689 | $ 23,119 | $ 32,966 | $ 66,342 |
| Coverage Ratio | 1.3 | 0.7 | 0.9 | 0.6 | 0.4 | 0.2 |
| Total Combined Coverage Ratio | 9.8 | 6.0 | 5.9 | 6.6 | 6.8 | 4.9 |

* Due to the changes in the state's fund structure initiated when GASB Statements No. 34 and No. 35 were implemented, the pledged revenue bond information is available only beginning in 2002

Note: This bond data includes operating revenues, interest earned on investments, other pledged revenues and other sources. Operating expenditures incude capital outlay expenditures.

Source: 2002-07 state of Texas annual financial statements and bond reporting system.

STATE OF TEXAS

Statistical Section – Demographic and Economic Information

# Top 10 Private Employers in Texas*

Last Seven Years**

| 2000 | 2001 | 2002 |
|---|---|---|
| Administaff Companies, Inc. | Administaff Companies, Inc. | Administaff Companies II LP |
| Albertsons, Inc. | Albertsons, Inc. | American Airlines, Inc. |
| American Airlines, Inc. | American Airlines, Inc. | Continental Airlines, Inc. |
| Continental Airlines, Inc. | HEB Grocery Company LP | HEB Grocery Company LP |
| HEB Grocery Company LP | Kroger Texas LP | Home Depot USA, Inc. |
| Kroger Texas LP | Sears Roebuck & Company | Kroger Texas LP |
| Sears Roebuck & Company | Southwestern Bell | Southwestern Bell Telephone LP |
| Southwestern Bell | Target Stores Division | Target Stores Division |
| United Parcel Service, Inc. | United Parcel Service, Inc. | United Parcel Service, Inc. |
| Wal-Mart Associates, Inc. | Wal-Mart Associates, Inc. | Wal-Mart Associates, Inc. |

| 2003 | 2004 | 2005 |
|---|---|---|
| Administaff Companies II LP | Administaff Companies II LP | Administaff Companies II LP |
| American Airlines, Inc. | American Airlines, Inc. | American Airlines, Inc. |
| HEB Grocery Company LP | Continental Airlines, Inc. | Continental Airlines, Inc. |
| Home Depot USA, Inc. | HEB Grocery Company LP | HEB Grocery Company LP |
| Kroger Texas LP | Home Depot USA, Inc. | Home Depot USA, Inc. |
| Lockheed Martin Corp | Kroger Texas LP | Kroger Texas LP |
| Southwestern Bell Telephone LP | Southwestern Bell Telephone LP | Southwestern Bell Telephone LP |
| Target Stores Division | Target Stores Division | Target Stores Division |
| United Parcel Service, Inc. | United Parcel Service, Inc. | United Parcel Service, Inc. |
| Wal-Mart Associates, Inc. | Wal-Mart Associates, Inc. | Wal-Mart Associates, Inc. |

| 2006 |
|---|
| Administaff Companies II LP |
| American Airlines, Inc. |
| Continental Airlines, Inc. |
| HEB Grocery Company LP |
| Home Depot USA, Inc. |
| Kroger Texas LP |
| Southwestern Bell Telephone LP |
| Target Stores Division |
| United Parcel Service, Inc. |
| Wal-Mart Associates, Inc. |

* Employers are listed alphabetically, with no ranking intended. The number of employees is not disclosed due to confidentiality.

** The year 2007 and years prior to 2000 are not available.

Source: Prepared by the Labor Market and Career Information Department of the Texas Workforce Commission.

STATE OF TEXAS

Statistical Section – Demographic and Economic Information

# Texas and U.S. Selected Statistics

Last Ten Years

## Texas and U.S. Population, Total Personal Income and Per Capita Income
## Last Ten Years

| Year | Population (Thousands) | | | | Total Personal Income (Millions) | | | | Per Capita Income | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Texas | Percent Change | U.S. | Percent Change | Texas | Percent Change | U.S. | Percent Change | Texas | Percent Change | U.S. | Percent Change |
| 1998 | 20,158 | 2.1% | 275,851 | 1.2% | 507,682 | 8.9% | 7,415,709 | 7.4% | 25,185 | 6.6% | 26,883 | 6.1% |
| 1999 | 20,558 | 2.0% | 279,040 | 1.2% | 539,661 | 6.3% | 7,796,137 | 5.1% | 26,251 | 4.2% | 27,939 | 3.9% |
| 2000 | 20,952 | 1.9% | 282,217 | 1.1% | 593,139 | 9.9% | 8,422,074 | 8.0% | 28,309 | 7.8% | 29,843 | 6.8% |
| 2001 | 21,358 | 1.9% | 285,226 | 1.1% | 619,642 | 4.5% | 8,716,992 | 3.5% | 29,012 | 2.5% | 30,562 | 2.4% |
| 2002 | 21,762 | 1.9% | 288,126 | 1.0% | 626,604 | 1.1% | 8,872,871 | 1.8% | 28,793 | (0.8)% | 30,795 | 0.8% |
| 2003 | 22,134 | 1.7% | 290,796 | 0.9% | 649,419 | 3.6% | 9,150,320 | 3.1% | 29,340 | 1.9% | 31,466 | 2.2% |
| 2004 | 22,518 | 1.7% | 293,638 | 1.0% | 695,504 | 7.1% | 9,711,271 | 6.1% | 30,887 | 5.3% | 33,072 | 5.1% |
| 2005 | 22,929 | 1.8% | 296,507 | 1.0% | 760,316 | 9.3% | 10,284,378 | 5.9% | 33,160 | 7.4% | 34,685 | 4.9% |
| 2006 | 23,508 | 2.5% | 299,398 | 1.0% | 824,145 | 8.4% | 10,966,808 | 6.6% | 35,058 | 5.7% | 36,629 | 5.6% |
| 2007 | 23,859 | 1.5% | 302,098 | 0.9% | 889,588 | 7.9% | 11,676,922 | 6.5% | 37,286 | 6.4% | 38,653 | 5.5% |

* 2007 personal income estimates used three quarters of actual data. The fourth quarter is estimated using the average growth rate during the first three quarters.

Source: U.S. Bureau of Economic Analysis and Texas Comptroller of Public Accounts. The Bureau revised historical data contained in this table due to changes in methodology, inflation factors, price indicators and revisions to interim census figures. 2007 numbers include growth rates from quarterly economic forecast models of Global Insight, Inc. and the Texas Comptroller.

# Texas and U.S. Employment and Unemployment Rates Last 10 years

(Thousands of Jobs and Percent)

| Year | Nonfarm Employment | | | | Unemployment Percentage Rate | |
|---|---|---|---|---|---|---|
| | Texas | Percent Change | U.S. | Percent Change | Texas | U.S. |
| 1998 | 8,940 | 3.8% | 125,924 | 2.6% | 4.8% | 4.5% |
| 1999 | 9,160 | 2.5% | 128,992 | 2.4% | 4.6% | 4.2% |
| 2000 | 9,432 | 3.0% | 131,791 | 2.2% | 4.2% | 4.0% |
| 2001 | 9,514 | 0.9% | 131,832 | 0.0% | 4.8% | 4.7% |
| 2002 | 9,416 | (1.0)% | 130,347 | (1.1)% | 6.3% | 5.8% |
| 2003 | 9,370 | (0.5)% | 129,990 | (0.3)% | 6.7% | 6.0% |
| 2004 | 9,497 | 1.4% | 131,423 | 1.1% | 6.0% | 5.5% |
| 2005 | 9,740 | 2.6% | 133,696 | 1.7% | 5.3% | 5.1% |
| 2006* | 10,054 | 3.2% | 136,175 | 1.9% | 4.9% | 4.6% |
| 2007* | 10,277 | 2.2% | 137,919 | 1.3% | 4.3% | 4.6% |

* 2006-07 numbers are subject to benchmark revisions. 2007 numbers include estimates for the last quarter.

Source: Texas Workforce Commission, Texas Comptroller of Public Accounts and U.S. Bureau of Labor Statistics. Historical data have been revised.

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## Statistical Section – Operating Information

# Full-Time Equivalent Employees by Function

### Last Ten Fiscal Years

| FUNCTION | 1998 | 1999 | 2000 | 2001 | 2002 | 2003 | 2004 | 2005 | 2006 | 2007 |
|---|---|---|---|---|---|---|---|---|---|---|
| General Government | 12,837 | 12,950 | 12,981 | 13,472 | 13,362 | 13,607 | 13,034 | 13,435 | 12,999 | 13,438 |
| Education | 117,603 | 119,286 | 122,009 | 124,871 | 129,767 | 133,857 | 134,456 | 140,367 | 144,636 | 146,944 |
| Employee Benefits | 309 | 306 | 313 | 309 | 314 | 315 | 302 | 292 | 294 | 302 |
| Teacher Retirement Benefits | 379 | 380 | 397 | 418 | 437 | 441 | 440 | 451 | 444 | 445 |
| Health and Human Services | 59,088 | 56,844 | 54,923 | 53,023 | 53,420 | 52,238 | 49,288 | 48,389 | 49,097 | 50,910 |
| Public Safety and Corrections | 52,887 | 53,510 | 52,699 | 52,133 | 52,405 | 53,231 | 51,473 | 51,397 | 51,564 | 50,889 |
| Transportation | 14,403 | 14,553 | 14,751 | 14,926 | 14,845 | 14,717 | 14,078 | 14,551 | 14,744 | 14,748 |
| Natural Resources and Recreation | 8,016 | 7,971 | 8,062 | 8,172 | 8,370 | 8,299 | 7,990 | 8,053 | 8,018 | 8,014 |
| Regulatory Services | 3,944 | 3,960 | 3,931 | 3,933 | 3,973 | 3,882 | 3,779 | 3,882 | 3,869 | 3,828 |
| Total FTE's | 269,466 | 269,760 | 270,066 | 271,257 | 276,893 | 280,587 | 274,840 | 280,817 | 285,665 | 289,518 |
| Percentage Change | 0.1% | 0.1% | 0.1% | 0.4% | 2.1% | 1.3% | (2.0)% | 2.2% | 1.7% | 1.3% |

Source: Texas State Auditor's Office

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Statistical Section – Operating Information

# Capital Asset Statistics by Function

Last Three Fiscal Years

| Function | 2005 | 2006 | 2007 |
|---|---|---|---|
| **GENERAL GOVERNMENT** | | | |
| Number of TBPC Owned Facilities | 71 | 75 | 75 |
| State Real Property Inventory in Acres | 2,446,418 | 2,425,037 | 1,322,123 |
| **EDUCATION** | | | |
| Number of School Districts | 1,037 | 1,033 | 1,031 |
| Number of Students | 4,383,871 | 4,505,572 | 4,576,933 |
| Number of Higher Education Institutions | 145 | 145 | 145 |
| **HEALTH AND HUMAN SERVICES** | | | |
| Number of State Mental Health Facilities | 39 | 39 | 39 |
| Number of State Hospitals | 10 | 10 | 10 |
| **PUBLIC SAFETY AND CORRECTIONS** | | | |
| Number of State Prisons – TDCJ only | 106 | 106 | 106 |
| Number of available beds (capacity) | 155,277 | 156,520 | 156,652 |
| Number of authorized vehicular state patrol units | 1,095 | 1,195 | 1,281 |
| **TRANSPORTATION** | | | |
| Centerline Miles of Highways* | 79,645 | 79,696 | 79,849 |
| Number of Bridges** | 32,421 | 33,322 | 32,996 |
| **NATURAL RESOURCES AND RECREATION** | | | |
| Number of State Parks Managed | 117 | 112 | 110 |
| Number of Park Acreage | 610,319 | 608,716 | 602,892 |

* Highway miles = state maintained centerline miles (miles traveled in one direction regardless of the number of lanes in a roadway).

** Number of bridges is the bridges owned by the state. TxDOT also works on off-system bridges (county and city-owned bridges). Off-system bridges are not included in the number of bridges total.

Source: Various state agencies and official state agency websites

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## Statistical Section – Operating Information

# Operating Indicators by Function

### Last Three Fiscal Years

| Function | 2005 | 2006 | 2007 |
|---|---|---|---|
| **GENERAL GOVERNMENT / REGULATORY SERVICES** | | | |
| Number of Tax Returns Processed | 3,796,940 | 3,904,659 | 4,251,103 |
| Number of Licenses Issued (2007 is Estimated) | 1,494,693 | 1,554,754 | 1,575,919 |
| **EDUCATION** | | | |
| Average Daily School Attendance (ADA)* | 4,099,615 | 4,205,729 | 4,260,406 |
| Percent of Students Passing TAKS Test* | 62% | 67% | 70% |
| Texas Higher Education Enrollments | 1,184,373 | 1,211,582 | 1,228,897 |
| Higher Education Degrees Awarded** | 185,326 | 188,258 | NA |
| **HEALTH AND HUMAN SERVICES** | | | |
| Number of Medicaid Clients Served | 2,779,373 | 2,873,786 | 2,831,832 |
| Number of TANF Clients Served *** | 219,045 | 172,776 | 145,807 |
| Number of Immunizations | 6,381,835 | 11,617,682 | 12,827,417 |
| **PUBLIC SAFETY AND CORRECTIONS** | | | |
| Number of New Prison Population | 73,815 | 74,170 | 73,525 |
| Number of Prison Population Released | 69,846 | 71,214 | 72,032 |
| Average Daily Prison Population | 151,448 | 151,734 | 152,805 |
| Authorized Number of Troopers Patrolling Texas Highways | 1,628 | 1,628 | 1,689 |
| **TRANSPORTATION** | | | |
| Number of Construction Contracts Processed For Letting | 989 | 1,075 | 877 |
| Number of Lane Miles Receiving Roadway | | | |
| Surface Improvments: – By Contract | 18,554 | 15,811 | 13,197 |
| – Via State Sources | 7,318 | 6,406 | 5,984 |
| Number of Vehicles Registered | 19,624,460 | 20,609,866 | 21,432,773 |
| **NATURAL RESOURCES AND RECREATION** | | | |
| Number of State Parks Visits (In Millions) | 5.2 | 5.0 | 4.9 |
| Number of Parks and Wildlife Licenses Issued**** | 2,626,957 | 2,625,225 | 2,665,045 |

* The "Percent of Students Passing TAKS test" is from the 2006-07 TEA AEIS report at: http://www.tea.state.tx.us/perfreport/aeis/2007/state.pdf These scores represent the "TAKS Met 2007 Standard (Sum of All Grades Tested)(Standard Accountability Indicator)"

** The 2007 degress conferred will not be available until later in 2008.

*** TANF fiscal 2007 is based on data through November 2007, but will not be finalized until March 2008.

**** Includes commercial and recreational licenses, stamps, tags and permits. Does not include items such as hunting lease license sales, collector's stamp sales, hunt drawing sales and other similar items sold through the Point-of-Sale System.

Other Sources: Various state agencies, state agency reports and official state agency websites

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